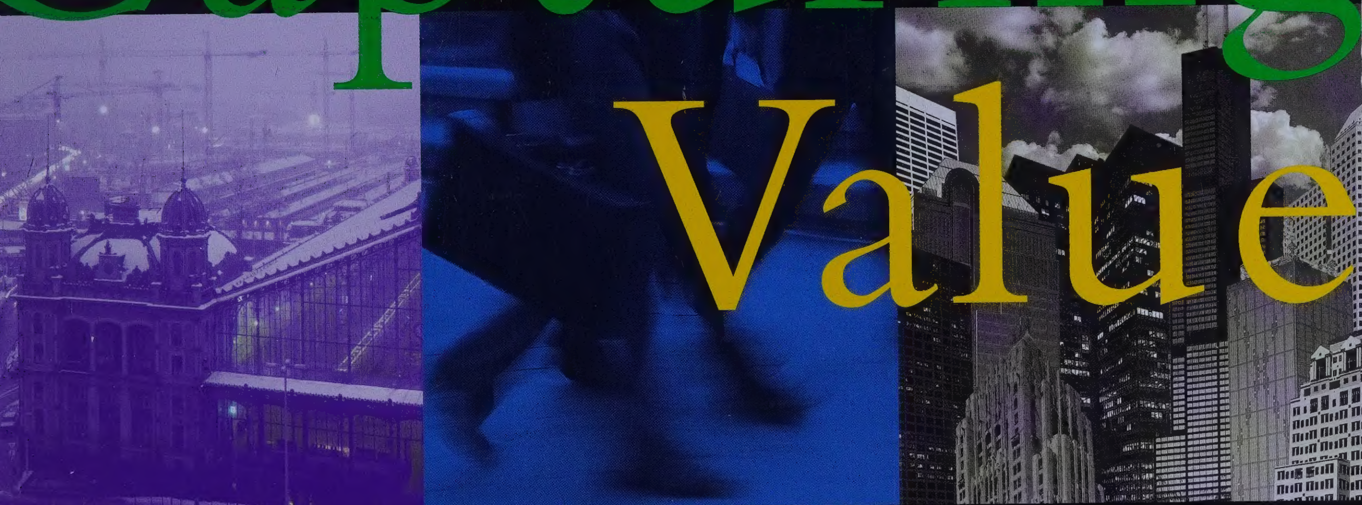
TrizecHahn
CORPORATION

Capturing Value



Annual Report 1998

TrizecHahn Corporation, one of the largest real estate companies in North America and now expanding into Europe, has more than US$7 billion in assets and a total market capitalization of approximately US$7 billion. It combines great expertise with financial strength and a commitment to innovation and growth. One of the most liquid real estate stocks in North America, the Company's shares trade on the New York, Toronto and Montreal stock exchanges under the symbol TZH.

TrizecHahn has ownership interests in and manages a high-quality portfolio of landmark office properties in the U.S. and Canada, comprising 65 million square feet. TrizecHahn also develops retail/entertainment and office projects in North America, and has recently announced plans to expand into Europe with a focused retail/entertainment strategy.

TrizecHahn's mandate is to become a leading real estate growth company with consistently superior financial performance.

- Completed the $2.6 billion sale of the U.S. retail center portfolio.

- Successfully re-invested the proceeds to increase the returns on equity.

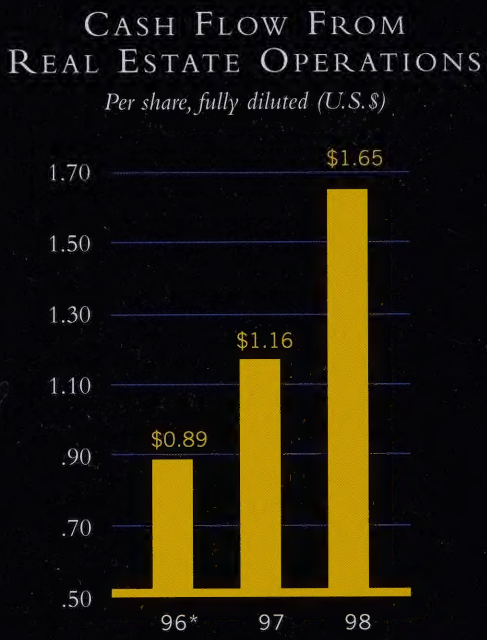
1998 Achievements

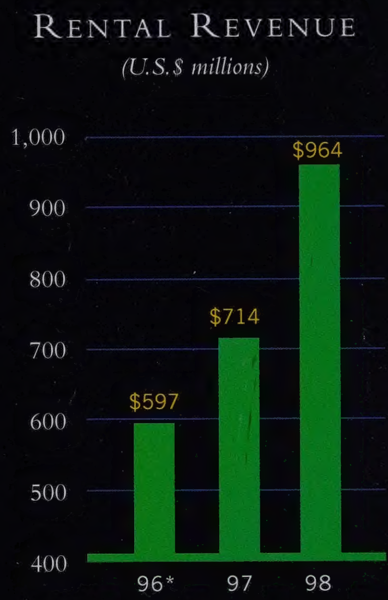
- Purchased 70 office properties for a total cost of $2.9 billion, with strong potential for future revenue growth.

- Leased 7 million square feet of space, compared to 3.7 million during the previous year.

- Experienced an average uplift of approximately $1.25 per square foot in net rental rates on re-leasing of office space, a 13% increase over in-place rents.

- Financed $2.6 billion of debt, reducing interest cost to 7.2% at year-end 1998.





At a Glance

* *Pro Forma*

FINANCIAL HIGHLIGHTS

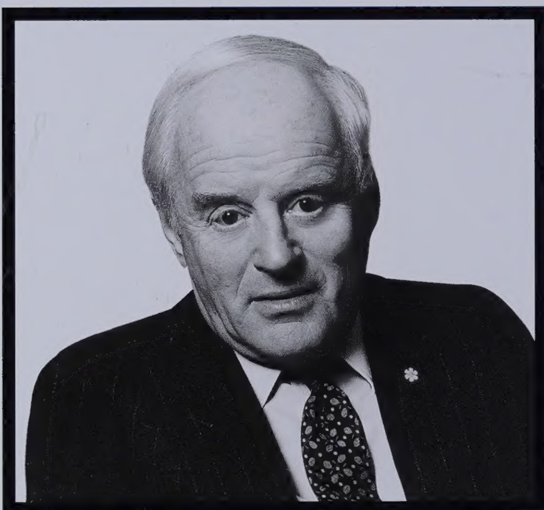
All dollar amounts shown in this report are in U.S. dollars unless otherwise noted.

(U.S.$ millions, except per share amounts)	1996 Pro Forma	1997	1998	Change 1997 to 1998
Rental Revenue	$ 597	$ 714	$ 964	+35%
Rental Income	339	396	542	+37%
Cash Flow from Real Estate Operations	126	176	269	+53%
Per share, fully diluted	0.89	1.16	1.65	+42%
Net Income	25	48	530	+1,004%
Per share, fully diluted	0.18	0.32	3.11	+872%
Real Estate Assets	$ 3,813	$ 5,130	$ 6,695	+31%
Total Market Capitalization	5,438	6,572	7,118	+8%

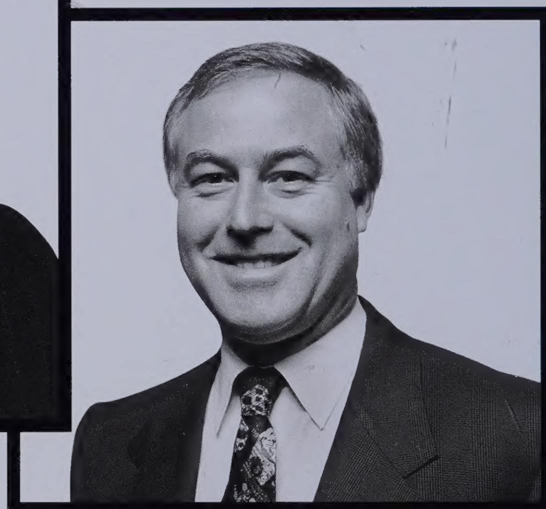
STRONG PERFORMANCE, AGAIN

For 11 quarters, TrizecHahn has increased cash flow per share by an average of 34% over the previous year.

Letter to Shareholders



PETER MUNK
Chairman and
Chief Executive Officer



GREGORY C. WILKINS
President and
Chief Operating Officer

TRIZECHAHN PERFORMED VERY WELL THIS YEAR. WE CONTINUED OUR STRONG UPWARD TREND IN CASH FLOW GENERATION (FFO), WHICH INCREASED BY 53% OVER THE PREVIOUS YEAR, TO $269 MILLION. Rental income from the office portfolio increased 71% to $435 million for the year, compared to $254 million in 1997. Most important, the fourth quarter of 1998 was the eleventh quarter in which we increased cash flow per share by an average of 34% over the same quarter the previous year. This level of growth is enviable, not only in the real estate sector, but in the broader market as well.

Manage

VALUE

Distinguished By Our Strategy

We have been able to deliver these superior results, quarter after quarter, for a simple reason. Since entering the real estate industry in 1994, we have employed a consistently straightforward strategy designed to increase our return on equity by **creating**, **enhancing** and **capturing** value from real estate assets. This is why our properties are not our most valuable asset, our people are. It is the people who develop and **manage** the strategy – and deliver our superior long-term performance.

True, many real estate companies have created great assets. But it is our ability to enhance the value of those assets through strong management – and then capture their value through sell discipline – that really sets TrizecHahn apart. When we entered this business, we realized that many experienced people before us had created a great deal of wealth in the real estate market. Unfortunately, most also ultimately lost a great deal. We decided to approach the industry differently – as business people first – realizing the cyclical nature of real estate. We created a decentralized structure to encourage our managers to be entrepreneurial. And, we were willing to sell.

To maximize value in real estate throughout the cycle, which is our primary goal, you have to rotate your capital to sell out of lower-growth assets and buy into higher-growth ones. The failure of many in our industry has been their emotional attachment to individual assets, and hence their unwillingness to capture value by selling.

The hallmark of our strategy, and the highlight of 1998 for the Company, was the repositioning of our portfolio into higher-

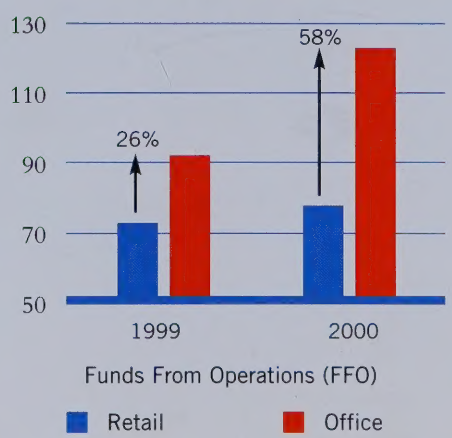
growth assets, which began in April when we announced the sale of our retail portfolio. We had significantly enhanced the value of the portfolio in advance of the sale, which generated net proceeds of $1.2 billion ($2.6 billion of gross proceeds). And, as part of our strategy, we immediately began re-deploying that capital into expanding our office portfolio with assets that offer higher returns and enhanced growth prospects, thereby strengthening our franchise.

Our sell discipline has served us well. As a result of the retail sale, we were one of the few real estate companies with ample liquidity to fuel growth with acquisitions. We took advantage of our competitive position. During the year we acquired more than $2.9 billion of office properties, which have significant potential to increase in value. By investing our capital into higher-growth assets, we have been able to dramatically increase our return on equity from the re-invested retail proceeds. As you can see from

Create

VALUE

EXPECTED VALUE FROM OFFICE RE-DEPLOYMENT
(U.S.$ millions)



Through the re-deployment of the proceeds from our retail portfolio into office properties, we expect to significantly increase our return on equity.

Enhance

VALUE

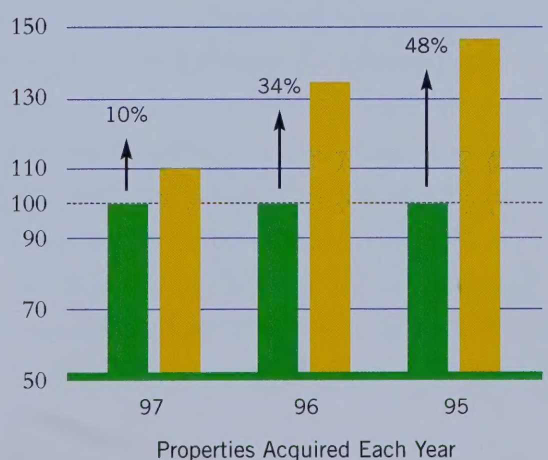
the chart on the previous page, we anticipate that the FFO we will generate from the properties we acquired with the retail proceeds will be 58% higher in 2000 than it would have been had we retained the retail center portfolio.

Office Acquisitions Drive Growth

Through our office acquisition strategy, we now own a large, geographically diverse portfolio of quality office buildings that generate strong and durable cash flow. We have created significant concentrations of office space in several key cities, which enables us to lead the market and to take advantage of economies of scale and increased market knowledge. As you can see from the chart below, we expect to derive significant growth from the assets we acquired in 1995, 1996, and 1997, which we discuss in more detail later in this report. The office portfolio has been a big factor in our eleven quarters of tremendous growth. And, we believe there is still more to come.

ANTICIPATED PERCENTAGE GROWTH IN PROPERTY INCOME FROM PAST ACQUISITIONS

(Basis Points)



Through active management of the portfolio, we expect to increase the income on our properties from the time that we acquired them.

Letter to Shareholders

Capture

VALUE

Prospects for strong economic and job growth continue in the cities where we own property. In fact, according to U.S. labor statistics, all the U.S. cities in which we have major concentrations are in the top ten for projected job growth during the next four years. As we will discuss in more detail later, existing rents in our properties are well below market – providing room to increase our income as we re-lease the space. And, as a result of the capital markets' discipline imposed on the industry, there is little anticipated development in most of our key markets, which will benefit us by limiting supply. This outlook for our portfolio leads us to believe that it will continue to deliver increasing value.

Strategy for Future Growth

We don't believe, however, that we can rely on one property type or one geographic region to deliver exceptional increases indefinitely. In order to be successful in an industry that is inherently cyclical, it is crucial to diversify – to capture maximum growth through different channels.

Therefore, we constantly explore new frontiers where we believe significant opportunities exist. In the year to come, you will see us leverage our experience and focus on a new market with high potential – Europe. We believe TrizecHahn stands alone in terms of the expertise, resources and commitment to fully capitalize on the new opportunities created by the dramatic economic and political changes taking place in Europe.

We discuss our European strategy in more detail later in this report. But it is important to remember that we will approach Europe the same way we have every other investment we have made – with an aggressive business plan balanced by financial discipline.

Deliver Value

Regrettably, the Company's performance was not reflected in the stock price this year. While our market performance was better than the sector as a whole, we realize that this is of little consolation. The explanation may be, in part, that the sector as a whole is still in its infancy with investors. Initial strong gains attracted momentum investors who have since concluded that the sector has peaked. That behavior ignores, and is inconsistent with, the strong fundamentals that we continue to demonstrate as a sector.

What matters over time is the value creation TrizecHahn achieves. As you will see throughout this report, we have not only created significant additional value, we are also positioned to continue to outperform. We plan to deliver exceptional results quarter after quarter and we believe the stock market ultimately always reflects performance and value creation.

In summary, this was not just a good year for TrizecHahn. It was a great year! After reading this report, we hope you will understand that our strategy to create, enhance and capture value is the means by which we achieve our superior performance. Yet, the strategy succeeds only because of the people who create and execute it. We would like to thank all of them for their contribution to our success and you, our shareholders, for your continued support.

PETER MUNK
Chairman and Chief Executive Officer
March 4, 1999

GREGORY C. WILKINS
President and Chief Operating Officer
March 4, 1999

Manage

With more than 2,300 employees in 75 cities around the world, our people are the key to our continued success. Members of our management team have diverse backgrounds. Because we think of ourselves as business people before real estate executives, we believe that the diversity of our backgrounds is integral to the way we do business. No matter how many buildings we own, or how many development projects we have underway, we will continue to believe that our people are our most valuable asset.

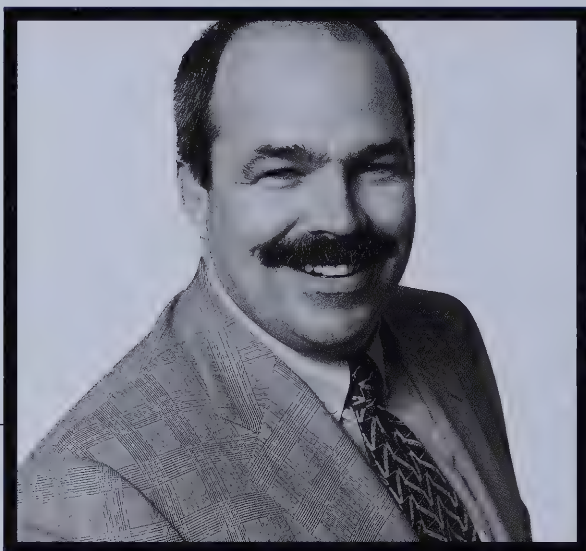
North America

GREG SULLIVAN
Executive Vice President and Chief Financial Officer, TrizecHahn

Greg Sullivan is an example of the broad perspectives our management team can bring to bear within the real estate business. His prior experience in management consulting, investment banking and corporate finance – all outside the real estate sector – as well as more than a decade of real estate acquisition and capital markets experience, afford TrizecHahn valuable insights across various financial and operational issues.

RICHARD STEETS
Executive Vice President, Corporate Development, TrizecHahn

In 1998, Richard Steets was instrumental in structuring and negotiating the sale of the U.S. retail portfolio, which has enabled the Company to re-invest more than $2 billion of proceeds into higher-return assets. Richard is a highly skilled negotiator, who excels at bridging technical, legal and business concerns when working on a deal. His background as a lawyer, developer and real estate investor, working on technically complex real estate finance transactions, adds tremendous value in his current role at TrizecHahn.



CASEY WOLD

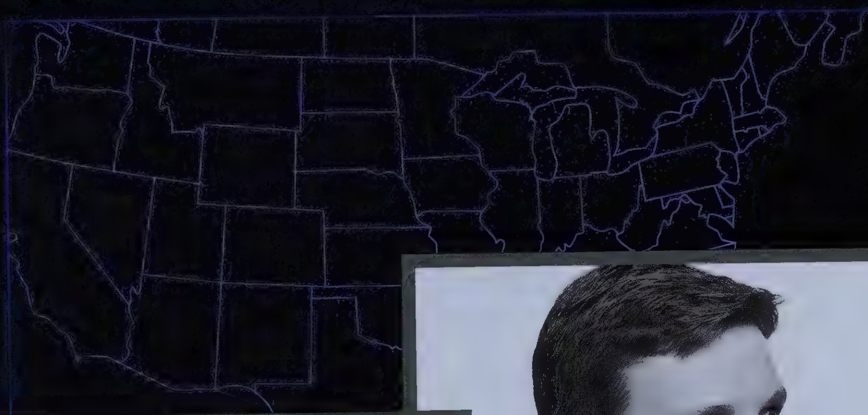
Executive Vice President, TrizecHahn;
President,
TrizecHahn Office Properties

Casey Wold has led TrizecHahn in its acquisition of more than $5 billion of office properties during the past four years. Casey's extensive knowledge of the owners of the major North American office buildings, and their properties' strengths and weaknesses, has been gained through years of real estate experience, including seven years acquiring properties for another large North American real estate company. His ability to target and close great deals, versus merely good deals, has significantly contributed to the growth of the Company.

LEE WAGMAN

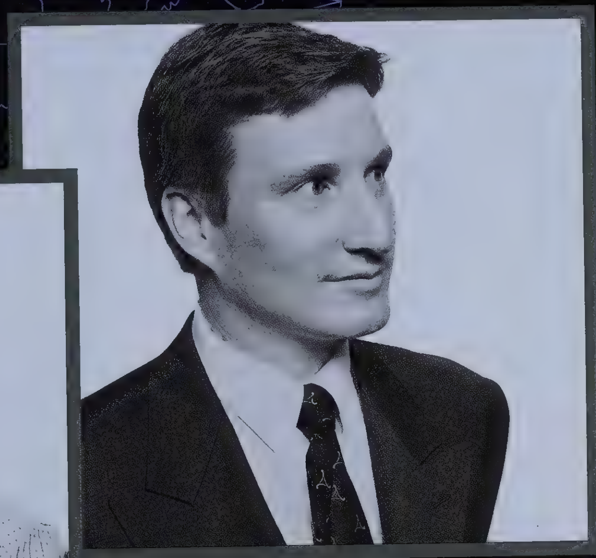
Executive Vice President, TrizecHahn;
President,
TrizecHahn Development Corporation

As President of TrizecHahn Development Corporation, Lee Wagman is instrumental in creating superior development projects that create value for the Company. Prior to joining TrizecHahn, Lee ran his own development company in St. Louis for 16 years. As an entrepreneurial developer, he handled every aspect of building and running a successful retail project, invaluable experience as he heads up TrizecHahn's North American development effort. In addition to his legal and business education, Lee brings to TrizecHahn a love of the creativity involved in today's retail and entertainment development.



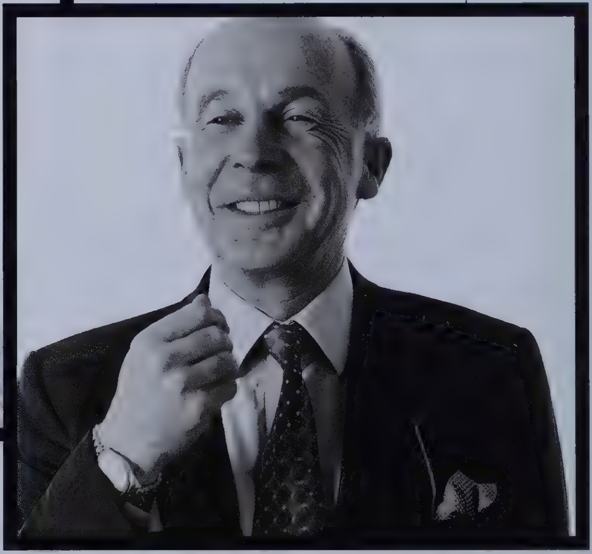
DOUG BRADLEY
Managing Director,
Corporate Development,
TrizecHahn

As a Managing Partner of Coopers and Lybrand's tax practice, Doug Bradley was heavily involved in the structuring of international business transactions over a variety of industries. As a result of this work, Doug has a strong understanding of how to effectively set up tax-efficient transactions with international implications, which is quite valuable in his work at TrizecHahn. Recently, Doug has worked on our European expansion and the restructuring of TrizecHahn's exchangeable debentures.



ANDREW BLAIR
Executive Vice President and
Chief Operating Officer,
TrizecHahn Development Corporation

As the Chief Operating Officer of TrizecHahn Development Corporation, Andrew Blair oversees all aspects of the development group's project and corporate operations, and plays a major role in strategic decisions affecting development activities in North America. His extensive background in financial transactions, mergers and acquisitions and corporate management are of tremendous value to the leadership and execution of the North American projects. Andrew has worked closely with the TrizecHahn corporate group since 1983.



BILL BIRCHALL
Vice Chairman, TrizecHahn
Deputy Chairman,
TrizecHahn Europe

Bill Birchall and Peter Munk have shared a long and prosperous partnership. Bill began working with Mr. Munk in 1970 when he helped start a property development company in Fiji and he has been the tough negotiator, trusted advisor and voice of reason at Mr. Munk's side ever since. Bill's business acumen and keen understanding of the meaning of numbers have made him invaluable as the two have worked together to build Barrick Gold, Horsham Corporation and TrizecHahn. Once again, Mr. Munk is relying on Bill Birchall as TrizecHahn launches a new venture – Bill has recently re-located to London to help lead the Company's expansion in Europe.

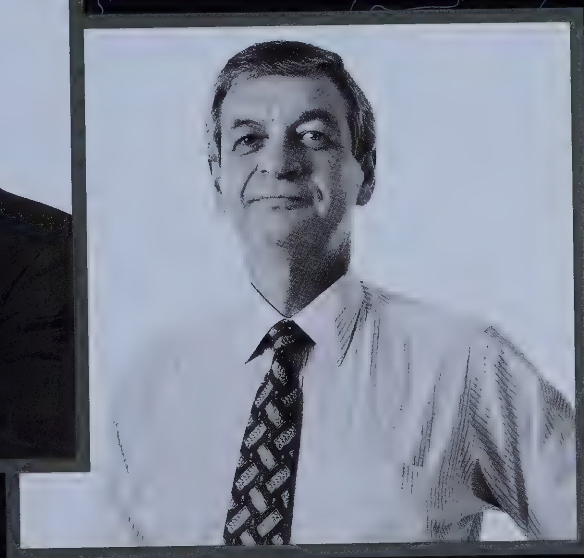
PETER SIDEBOTTOM
Managing Director,
TrizecHahn Europe

As a director of Horsham, Peter Sidebottom was actively involved in the acquisition of TrizecHahn in 1994. Today, he is Managing Director of TrizecHahn Europe, involved in all aspects of the business. A lawyer and chartered surveyor by trade, Peter worked with Herring Son & Daw for 16 years, specializing in finance and development, initially establishing offices for them in Sydney and Melbourne, Australia, and subsequently running their European operation, based in Paris. The Company also benefits from his experience at Hills Samuel Bank, of which he was a director, where he set up a real estate M&A Group within the corporate finance department.

Europe

BILL L'HEUREUX
Executive Director,
TrizecHahn Europe

As former President of Trizec Corporation, Bill L'Heureux brings a great deal of knowledge to his position as Executive Director at TrizecHahn, both in terms of the Company and the industry overall. Bill moved to London in September 1998, to apply his extensive business and legal knowledge to our activities in Europe. Having worked in senior management positions in real estate, brewing and entertainment, merchant banking and law, Bill brings a comprehensive management skill-set to TrizecHahn.



DEREK WATCHORN
Executive Director,
TrizecHahn Europe

Derek Watchorn joined our European operation in January 1999, after 30 years with TrizecHahn's principal legal counsel, Davies, Ward & Beck. Derek is applying his vast legal and business experience to various aspects of our European expansion. In the course of his legal career, Derek worked extensively on mergers and acquisitions and corporate real estate development. In recent years, his practice in the commercial real estate development area was primarily international in scope, with an emphasis on Europe. As one of the senior advisors to the Reichmann family, Derek spent several years in London working on the Canary Wharf project.

Create

During 1998, TrizecHahn acquired 70 office properties, comprising 26.4 million square feet of space. With these $2.9 billion of acquisitions, we increased the square footage of our office portfolio by 67% and rental income from the office portfolio by 71% over 1997.

WATERGATE OFFICE BUILDING
Washington, D.C.

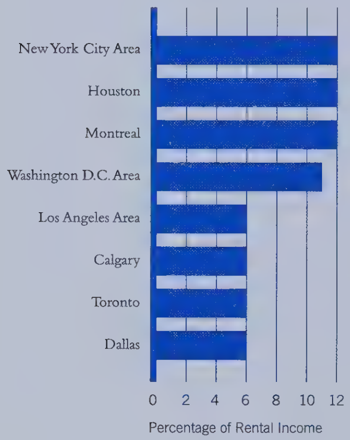
Growth through Acquisitions

Our 1998 acquisitions enhanced our franchise, in terms of its depth and breadth, tenant base and strategic positioning in key markets. We maintained the opportunistic approach that has served us well for the past four years, during which we acquired more than $5 billion of office properties. We took advantage of our market knowledge, local presence and strong relationships to execute transactions that enhanced our portfolio.

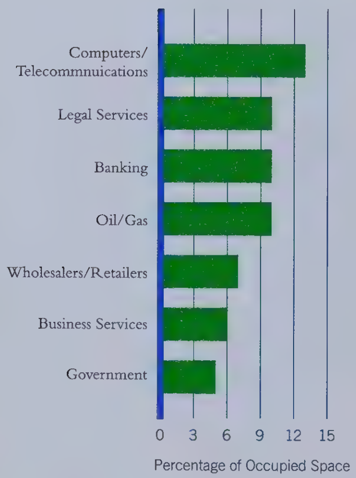
Last year, we continued to buy properties at attractive prices and returns, with significant potential for growth. We acquired the 26.4 million square feet at a cost of approximately $110 per square foot, which was, on average, approximately 63% of replacement cost. The properties we acquired had an average occupancy rate of 89% (excluding the Bell portfolio), providing potential for additional revenue upon lease-up. Many of the properties also had potential for revenue growth due to near-term expiries with below-market rents.

Through our 1998 acquisitions, we increased or established our strong presence in several key markets, so that we could derive the benefits of significant market share, such as cost reductions from economies of scale, broader tenant knowledge and exposure, and an ability to offer tenants a wider variety of product. In so doing, we targeted cities that are likely to outperform most other U.S. markets in terms of population and job growth. Our portfolio is primarily located in nine cities: New York, Chicago, Washington, D.C., Houston, Dallas, Los Angeles, Montreal, Atlanta and Calgary, most of which were a focus for our acquisition program. It is no coincidence that all seven of the U.S. cities are in the top ten for projected job growth during the next four years.

CITY CONCENTRATIONS
(year ended December 31, 1998)



INDUSTRY CONCENTRATIONS
(at December 31, 1998)



We expanded our acquisition criteria to include high-quality suburban properties in great locations, due to attractive pricing and the ability it gave us to broaden our presence in certain markets. We also purchased a significant amount of land for potential development as part of last year's purchases, bringing our land bank to 20 million square feet of buildable space.

We now have a portfolio that is quite diverse, both geographically and in terms of the tenant base, improving the durability of our cash flow and minimizing our dependence on individual markets or industries. Our largest concentration, based on rental income, in any one city is 12% and our largest exposure to any one industry is 13% – computers/telecommunications – an industry that we believe has above-average growth potential.

One of our first acquisitions during the year, the purchase of the office portfolio of The JBG Companies, established our presence in the Washington, D.C. area. The portfolio contained 18 high-quality office buildings, as well as land for development. We were fortunate that many of the key people who had been with JBG also joined TrizecHahn, creating an infrastructure on which we could build a strong regional presence. Our optimism about the potential for growth in the D.C. market, particularly from the increase in telecommunications and technology companies, led us to acquire several other properties in the area, increasing our portfolio in that market by 65% at year end.

We also established, and subsequently increased, our presence in Charlotte, North Carolina during 1998 – another real estate market that we believe will benefit from a strong local economy and significant job growth. We acquired two Class A office towers, First Citizens Plaza and NationsBank Plaza, directly across the

2 NORTH LASALLE
Chicago, IL

GALLERIA OFFICE TOWERS I, II & III
Dallas, TX

Buy

BRIAN LIPSON, *Senior Vice President, TrizecHahn Office Properties*

MIKE ESCALANTE, *Senior Vice President, TrizecHahn Office Properties*

Brian Lipson has built a career creating value through real estate. His years investing in office properties for a large pension fund advisory firm, as well as for a top office real estate company, have taught him to find opportunities with potential to create significant value. Brian brings a perspective of looking at potential acquisitions from the ground up, breaking down the components to find the value in a building. His disciplined approach to real estate investing has been key in 1998 as TrizecHahn acquired $2.9 billion of office properties.

In 1998, Mike Escalante was integral to TrizecHahn's acquisition of Galleria Towers and other assets in Texas, as well as several properties in California. In addition to extensive west-coast real estate experience, Mike has excellent communication and negotiating skills, and works well in TrizecHahn's decentralized management environment. Prior to joining TrizecHahn, Mike was responsible for west-coast acquisitions for the discretionary capital of a large pension fund advisory company. In addition to his acquisition responsibilities, Mike also heads up portfolio management for the Western United States region of TrizecHahn Office Properties.

street from one another in the central downtown area. Both properties were purchased at significant discounts to replacement cost, provide strong, stable cash flow and will enable us to take advantage of below-market rents as space is re-leased in the future.

LAKESIDE CENTRE
Atlanta, GA

In August, we purchased Plaza of the Americas in Dallas, Texas, adding to our substantial existing portfolio in that market. This 1.2 million square foot, Class A property was purchased at 55% of replacement cost and was only 82% occupied at acquisition, providing the opportunity to increase our cash flow through lease-up of the property. In the first quarter of 1999, we also purchased the premiere suburban property in Dallas, Galleria Towers. With that purchase, TrizecHahn's Dallas portfolio now includes 6.2 million square feet of well-located, high-quality office space. We currently have significant market share in Dallas and are able to accommodate potential tenants with different cost objectives, who wish to locate in a variety of areas.

Near the end of the year, we acquired two large office portfolios. The 3 million square foot Laing portfolio, consisting of nine existing properties and one development project, as well as 5 million square feet of land for potential development, increased our position in the Atlanta, Washington, D.C., and Charlotte markets.

Likewise, we purchased 10 properties from the Equitable Life Assurance Society comprising 5.3 million square feet, in Chicago, New York, Atlanta, Dallas and the Washington, D.C. area.

The space we acquired as part of the Equitable portfolio demonstrates how well our acquisition strategy works in practice. The entire portfolio was only 82% occupied at acquisition and approximately half of the vacant space was in Chicago, just

NATIONSBANK PLAZA
Charlotte, NC

across the street from the Sears Tower, which we began managing and leasing last year. Our leasing team knows that market well and is able to leverage that knowledge as they begin leasing the Equitable space.

In early 1999, we have continued to acquire office properties at attractive prices, completing an additional $260 million by the end of March 1999. However, as the year progresses, you are likely to see us buying fewer properties and focusing more attention on driving the returns from the existing portfolio. There is potential to enhance the value of our 65 million square foot portfolio, given our leasing and management programs and the portfolio-wide operating initiatives we have undertaken to improve efficiency. This will be discussed further in our section on enhancing value.

Long-term Growth through Development

There are 20 square feet of shopping center space per capita in the U.S. and on average only 1.4 square feet per capita in Europe. Yet projections for European consumer spending are more favorable than those of the U.S. going forward. These facts are a simplistic explanation for the re-direction of our development strategy.

Although we no longer see significant growth potential from owning or developing traditional shopping centers in North America, we possess invaluable knowledge and experience from having created and managed one of North America's best and most productive shopping center portfolios for 35 years. We have adapted that experience to meet the new demand in the U.S. marketplace, for unique, destination-oriented retail/entertainment centers, with two niche projects.

HOLLYWOOD & HIGHLAND
Los Angeles, CA

We are putting our experience and creativity to work, and are creating value for our shareholders through these two projects that will deliver strong financial returns, and, at the same time, will enhance our credibility as we expand internationally.

On October 8, we broke ground on the 640,000 square foot Hollywood & Highland development project, which will be an integral part of the City of Los Angeles' commitment to revitalize Hollywood. The project will benefit from the six million people who visit each year, and will meet the demand for a genuine Hollywood experience for tourists.

Hollywood & Highland has a premiere location, adjacent to Mann's Chinese Theater and the Walk of Fame. The project will feature television broadcast facilities, studio venues and a multiplex theatre surrounded by world-class retail shops and restaurants.

Hollywood & Highland will also contain a 3,300-seat state-of-the-art theater and ballroom, which will allow the Academy Awards® ceremonies to come home to Hollywood.

In 1998, TrizecHahn also commenced construction of Desert Passage at Aladdin, in Las Vegas, a 450,000 square foot retail/entertainment complex that is part of a $1.3 billion hotel and casino re-development project. Desert Passage is a premiere project at the heart of Las Vegas Boulevard. The project will benefit from its excellent street access and will serve the 30 million tourists who visit Las Vegas each year.

Realizing that we can create great retail developments, but that the U.S. is a more competitive and challenging market, naturally led us to seek new frontiers from which to leverage our expertise and resources. We see a tremendous opportunity to capitalize on our U.S. experience by expanding in Europe.

DESERT PASSAGE
AT ALADDIN
Las Vegas, NV

Develop

DAVID MALMUTH, *Senior Vice President, TrizecHahn Development Corporation*

HOLLYWOOD & HIGHLAND
Los Angeles, CA

David Malmuth's years as Vice President of Development at Walt Disney Imagineering and General Manager of Disney Development Company have shaped the way he looks at development – seeing real estate as a way to enhance an entertainment experience. Before joining TrizecHahn, he spear-headed the renovation of the New Amsterdam Theater in New York and the highly publicized development of additional retail business in New York's famed Times Square area. David is currently leading the development of TrizecHahn's Hollywood & Highland project, which will enhance tourists' experience in Hollywood and serve as an example of TrizecHahn's capability to create large-scale retail/entertainment projects, both in the U.S. and abroad.

In September, we opened our European headquarters in London, England and re-located some of our most senior people, both from Toronto and from our retail division in San Diego. Having sold the retail portfolio, we had people with extensive retail operational and development experience available to help execute our expansion in Europe. No other company, with our expertise and knowledge, has mobilized such an extensive team to develop in this rapidly growing market.

We believe that the economic and political convergence taking place in Europe, highlighted by the introduction on January 1, 1999 of the euro, create outstanding growth opportunities for North American-type projects geared to leisure-time consumer spending. The consumer environment is changing in Europe, as spending power and demand for a wide variety of goods and entertainment increase.

When we talk about the opportunities we see, it is important to note that our focus will not be just on capital cities where there are plenty of well-executed retail locations. It is often the smaller, less developed, second-tier cities that we believe are under-served and that offer the greatest possibilities.

Another factor in our decision to expand into Europe is that, in response to the consumer demand, international retailers are moving there to increase market share. These retailers aren't looking for just any space. They've become world-calibre themselves, in part by being associated with top-quality centers. And we intend to give them the opportunity to expand right across the Continent. Our goal is to provide a platform for their expansion, while offering the local population a new, fun experience.

PRINCIPE PIO
Madrid, Spain

We have begun our European program in earnest. We currently have a number of quality European development projects underway. In every case, we are entering these markets with a local partner who complements our expertise with an understanding of local culture, consumer preferences and business and legal practices.

In Budapest, we are developing West End City Center, the first integrated retail/entertainment, office and hotel center in Central Europe with our joint-venture partner, Polus Investments. The project is under construction on a site adjacent to the famous West End Railway Station designed by Gustav Eiffel. It will feature more than half a million square feet of retail/entertainment space, of which 80% is already committed, and is expected to open at the end of this year.

While the Budapest complex serves as a paradigm for those to follow, each of our European centers will be designed to suit the local character and needs of its market.

In Spain, for example, we are collaborating with Riofisa Group, a major local development group on a number of projects; two - one in Madrid, and the other in Valencia - are currently underway. At Principe Pio, in Madrid, we are restoring and re-developing a busy metro, rail and bus interchange to capture the consumer demand of 450,000 commuters passing through the area daily. Bonaire Park, currently under construction in Valencia, will be among the largest retail projects in Southern Europe.

As a part of another joint venture with Stannifer Projekt a.s., TrizecHahn is developing five hypermarket-based retail centers in the Czech Republic. The first of these is now under construction in the country's second largest city, Brno. Ahold, the

POLUS CENTER
Budapest, Hungary

Dutch hypermarket chain, will be an anchor tenant, as will Ster-Kinekor, one of the leading international multiplex cinema operations. Additional sites are in Prague, Teplice, Ostrava and Mlada Boleslav.

We are also developing a hypermarket-based retail/entertainment center, with Carrefour of France as an anchor tenant, in Bratislava, the capital of Slovakia. The center is currently under construction with completion scheduled for summer 2000.

Most of our European projects will be anchored by hypermarkets and will also contain multiplex theaters – some will also have office, hotel or residential space. They are all characteristic of our strategy to take advantage of high consumer traffic locations, such as train stations.

In addition to the geo-political, social and capital markets factors that are creating opportunities in the region, we believe that our excellent contacts there are a competitive advantage. We have a level of comfort that the regulatory issues can be managed, and we're very aware of the cultural sensitivities that need to be considered.

Despite the considerable capital available for real estate expansion in Europe, few companies have the management expertise and the experience in developing enclosed regional centers, for which we think there is, and will be, great demand. We plan to leverage our North American experience and expertise by focusing this highly talented management team, working with local partners, to capitalize on the development of a new generation of retail/entertainment centers.

BONAIRE PARK
Valencia, Spain

Develop

JOE LARSEN, *Executive Vice President, Development and Operations, TrizecHahn Europe*

WEST END CITY CENTER
Budapest, Hungary

As President and COO of TrizecHahn Centers, Joe Larsen was instrumental in pioneering specialty leasing and sales reporting initiatives, which were key in creating value across the entire retail portfolio. Joe will now apply the same standard of excellence TrizecHahn achieved in its North American shopping center portfolio to our expansion in Europe. As part of TrizecHahn's strategy to move some of its best retail development staff to Europe, Joe joined the London office from San Diego in September 1998. He brings nearly 30 years of experience in the shopping center industry to our European development effort.

Enhance

In 1998, we leased 7 million square feet of office space. Our leasing activity raised same-property occupancy by 3% to 93% and enabled us to achieve same-property cash flow (FFO) growth of 10%. More than 4,300 tenants now occupy our buildings.

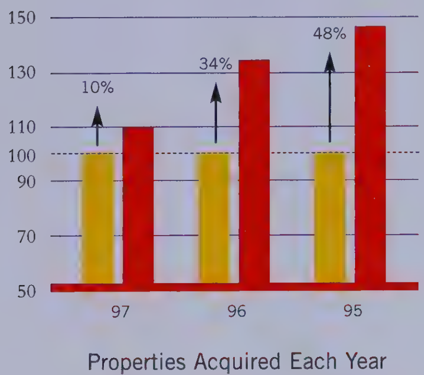
FIRST CITIZENS PLAZA
Charlotte, NC

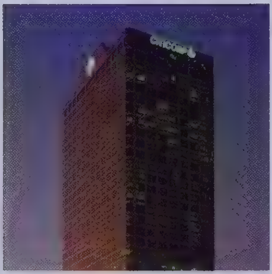
In addition to achieving growth through office acquisitions and development, we strive to achieve growth by enhancing the value of our existing office portfolio.

Internal growth is driven by aggressive leasing, strategic market positioning, portfolio-wide undertakings that increase cost efficiency and new leasing initiatives. In large part, owning office buildings is essentially a commodity business, but the innovation and commitment of a strong management team can make a difference.

These internal growth initiatives have served us well thus far, primarily because of our excellent management team. We expect that, through our pro-active efforts, we can increase property income on the properties we acquired in 1995 by 48% by the end of 1999. Likewise, the property income from the properties we acquired in 1996 and 1997, where our efforts have had less time to take effect, is anticipated to increase by 34% and 10% respectively.

ANTICIPATED PERCENTAGE GROWTH IN PROPERTY INCOME FROM PAST ACQUISITIONS
(Basis Points)





CITICORP CENTER
Los Angeles, CA

Additionally, rental income from our office portfolio increased by $181 million, or 71% from 1997 to 1998. Of this growth, $13 million, or 7%, resulted from improvements in continuing operations of properties owned during the entire period. The reasons for this performance include the active management and leasing of our portfolio which resulted in improvements in occupancy and rental rates for our office space. Higher rental rates and occupancy contributed approximately 70% to the improvement over 1997. Our new and renewal rental rates increased by approximately 13% over average in-place rents. That was a turning point for us, since it was the first year since the early 90's that our rental rates increased upon expiry of leases.

The success of our efforts to increase internal growth is particularly evident in our Houston portfolio. Because we own seven towers in downtown Houston, and are the largest landlord in that market, we have a definite competitive advantage. Our integrated, pro-active approach to leasing allows us to find the right space for tenants, at a variety of price points, in any of our buildings in the area. By understanding and meeting the demands of potential tenants, we are able to increase occupancy and improve rental rates.

Our downtown Houston portfolio was 81% occupied at December 1996. By year-end 1998, the portfolio was 95% leased. In fact, we leased or re-leased more than one million square feet of space in Houston at higher rents in each of 1997 and 1998. We think that speaks to the effectiveness of our leasing team.

PLACE VILLE MARIE
Montreal, QC

Enhance

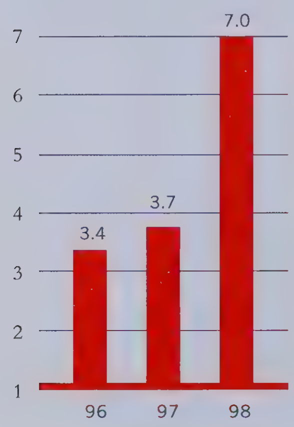
DAVID CLAPP, *Chief Operating Officer, TrizecHahn Office Properties*

WORLD APPAREL CENTER
New York, NY

David Clapp's experience in various aspects of real estate management ultimately adds to our bottom line. As the former Chief Operating Officer for a private office development company headquartered in Chicago, David has been able to transfer his broad experience in managing their properties to TrizecHahn's portfolio. TrizecHahn also benefits from David's development experience, from which he acquired a proven ability to create value from new or existing assets. David uses these skills to enhance the value of our properties, be it through leasing, expansion of services or new revenue initiatives.

Our pro-active leasing and our reputation for providing excellent service and building management have enabled us to attract a high-quality, diverse tenant base in Houston. Continental Airlines, for example, re-located from suburban Houston to two of our downtown properties in the second half of 1998. Continental was an ideal new tenant when it was timely for us to be diversifying away from oil-related tenants. The lease was the largest of its kind in Houston in the past two decades, and we now lease more than 600,000 square feet to Continental.

NEW LEASING AND RENEWALS
(Sq. ft. millions)



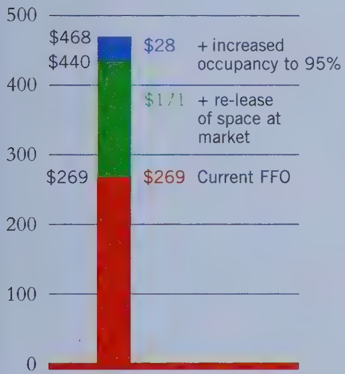
Market knowledge is one of the foundations of our success. Our regional leasing teams not only know their own tenants and buildings, they are also aware of new tenants in the market as well as possible new properties coming on stream. Because we understand the Houston market so well, we were able to act quickly and astutely when Allen Center came on the market in 1996.

Allen Center was an excellent acquisition at the time, but the internal growth we have achieved at the property has turned out to be the real story. The buildings are now 95% leased, as compared to 76% when we acquired the Center. Because of the combination of our leasing expertise and improvement in the Houston market, we have raised net rental rates in our Houston properties from $7 per square foot in 1997 to $15 in 1999.

We believe it is not enough to buy good properties. Enhancing the value of our buildings is where TrizecHahn excels, as evidenced by the fact that we have almost doubled the value of our Houston properties since acquisition.

Another example of our successful portfolio management is Bell Trinity Square, a prominent downtown Toronto office

FFO Growth Potential
(U.S.$ millions)



building, which we acquired as a part of the Bell Canada portfolio in March 1998. Because we were aware of Bell's need to downsize its space, we were able to accommodate them prior to their lease expiry, yet not miss a day of rental income ourselves. At the same time, we re-leased the space to two high-quality tenants at higher rental rates. This pro-active approach to leasing drives internal growth across TrizecHahn's office portfolio.

Part of the reason we know our tenants and their markets so well is because our local leasing teams participate in the due diligence before we acquire an asset. As a result, when we take over the building, the team is already familiar with the building and its tenants. But we go beyond good working relationships with our tenants – we aim to understand what their needs are and where they are in their business cycles.

Our entire portfolio was 91% occupied at year end, with average rents that are 30% below market. Therefore, the revenue potential for the Company from capturing this growth is quite significant. Without any market rental rate or occupancy increases, we could realize an additional $171 million in cash flow (or $1.00 per share) as our leases are renewed over time to today's market rents. And, by further actively leasing our space to 95% occupancy, we could realize an additional $28 million in cash flow (or $.16 per share).

At TrizecHahn, we also look beyond traditional sources of revenue for ways to enhance the value of an asset.

The CN Tower and Sears Tower are not only two of the tallest buildings in the world, they are also the home of many broadcast antennae. We are making significant progress in expanding the revenues from broadcast business, which increases the value of the buildings. In the past year, we completed a

ADDING AN ANTENNA
AT SEARS TOWER
Chicago, IL

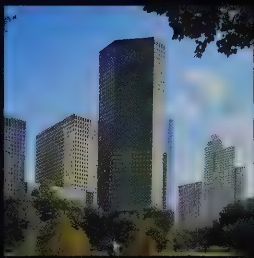
number of transactions, bringing new signals to Sears Tower, and we are making physical changes to the building to expand our broadcast capacity. We are also re-negotiating our existing contracts to better utilize space at the top of this landmark building.

Another key area of internal growth, which increases our bottom line substantially, is our parking revenue. We currently have about 73,000 parking spaces across our portfolio, from which we derive income of $50 million. As we increase occupancy in our buildings, we have better pricing flexibility to drive revenue from our parking facilities.

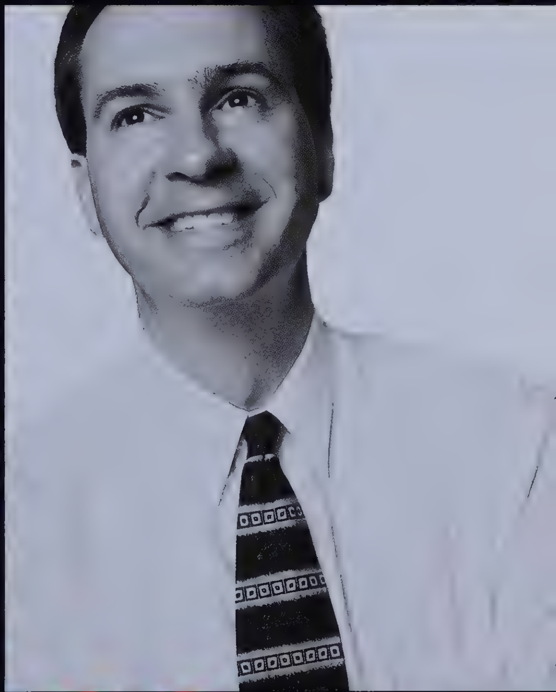
TrizecHahn is also continually enhancing the technological quality of its buildings, while growing the value of its portfolio, as in the area of riser management. Increased competition among telephone and data providers has created an opportune environment. By actively managing the risers that transport information within our buildings, we are able to provide improved service to our tenants while generating additional revenue through the leasing of riser space to service providers.

Opportunities abound to continue this positive momentum into the future. We will continue to capitalize on strengthening office markets and respond to our tenants' changing needs, and to find additional revenue from new and traditional sources.

BELL TRINITY SQUARE
Toronto, ON



ALLEN CENTER
Houston, TX



Enhance

BILL TRESHAM, *Senior Vice President, TrizecHahn Office Properties*

PAUL LAYNE, *Senior Vice President, TrizecHahn Office Properties*

Bill Tresham's extensive and varied experience in real estate makes him a key member of our office management team. After completing a law degree, Bill started out as a partner in a real estate development company, where he gained experience in every aspect of developing a building. Through this business, Bill also developed strong customer service skills, which he extends to all of the tenants in his region. Bill's entrepreneurial nature is an asset as he leads the Eastern Canada region for our office property division.

Paul Layne's leadership excellence allows his team to drive the utmost value from the assets in his region. From almost 20 years in leasing and asset management, Paul has honed his leasing skills to significantly enhance the value of TrizecHahn's Houston assets, such as Allen Center I, II and III. Paul and his team take relationship building with tenants very seriously, and successfully go to great efforts to meet their needs. Paul also brings to his work a strong knowledge of the Houston market through the many municipal business boards on which he sits.

Capture

By 1998, TrizecHahn and its predecessor companies had developed more than 90 high-quality shopping centers and had been a leading innovator in the industry for 35 years. It has also been successful in maximizing its revenue stream during the last two years. Consequently, the decision to sell the retail portfolio for $2.6 billion was a logical step and provides a strong example of the *create, enhance and capture value* strategy at work.

PARK MEADOWS
Denver, CO

During the last 35 years, The Hahn Company and Trizec Corporation, which would both become part of TrizecHahn, constantly responded to changes in consumer tastes and preferences by creating increasingly sophisticated centers. Some of the earlier centers included the new basics such as significant parking, large anchor tenants and controlled environments, while later projects, like Horton Plaza in San Diego, included movie cinemas, a farmer's market and a performing arts theater. As consumer preferences developed, TrizecHahn met the demand for larger centers and helped set the standard for superior retail centers.

TrizecHahn built its retail center empire by understanding what makes profitable retail and providing it to the public, time after time. We became pioneers in the industry, introducing many specialty leasing and sales reporting initiatives that enhanced the value of our portfolio. We actively managed the portfolio, culling low-performance centers and enhancing prominent ones in major U.S. metropolitan areas. It is no surprise that by 1998, sales at TrizecHahn centers had grown to well above the industry average.

In spite of the success we achieved with our retail portfolio, in early 1998, it was increasingly clear that slowing growth in retail sales in North America and ever-increasing competition amongst retailers and retailing formats made it difficult to generate above-average returns without the benefits of a large-scale portfolio.

With so much competition for consumers' attention and so many centers in every market, market "cannibalism" began to take place across the United States. Landlords not only had to

HORTON PLAZA
San Diego, CA

compete for shoppers, but also had to compete to get the best anchors and retailers. When new centers opened, nearby centers lost market share.

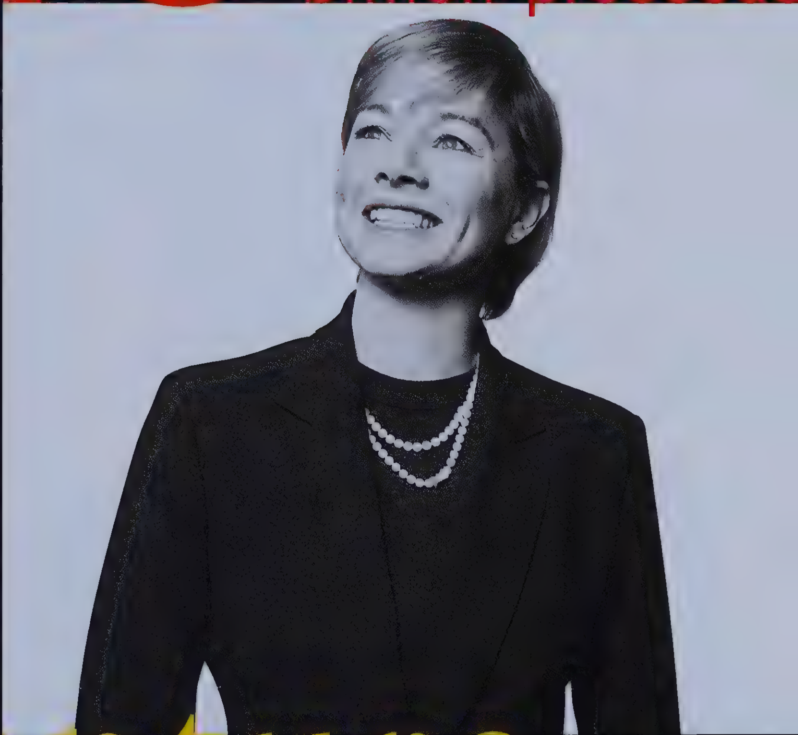
As a result, defensive capital was being invested into re-development just to recapture lost market share, generating no incremental wealth. The balance of power had shifted away from the owner and towards the retailer. Landlords often found themselves paying big inducements to anchor tenants and making major concessions to existing tenants.

That is where the U.S. retail real estate market stood in 1998 when we decided to sell our retail center portfolio. It appeared to us that only the largest players stood a chance of achieving meaningful growth in the future. So, rather than fight to become a large consolidator in a sector with limited growth potential, we decided to capture the value of the portfolio – by exercising our sell discipline.

We were able to execute the sale of our existing portfolio of 19 shopping centers to generate gross proceeds of $2.6 billion, and net proceeds to TrizecHahn of $1.2 billion. It is interesting to note that these sale proceeds are more than we paid for Trizec, which owned the retail portfolio at the time we created TrizecHahn by merging Horsham Corporation with Trizec Corporation.

The willingness to sell out of an asset class that we believed had less potential for growth enabled us to re-deploy our capital into U.S. office properties at an advantageous time when there were few competitors in the market due to capital constraints.

$2.6 billion proceeds



Capture

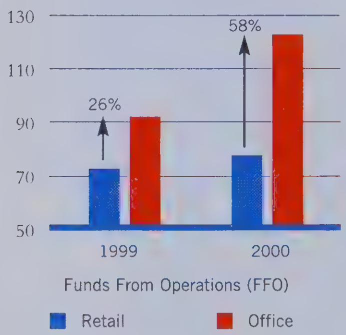
ROBIN CAMPBELL, *Senior Vice President, General Counsel, TrizecHahn*

In 1998, Robin played a key role in negotiating and executing the sale of our U.S. retail center portfolio. Her vast experience in corporate and securities law as a Partner at Tory Tory DesLauriers & Binnington allows her to apply her deal-execution discipline and strong communication skills to help in many areas throughout the Company, both in North America and Europe.

VALLEY FAIR
San Jose, CA

EXPECTED VALUE FROM OFFICE RE-DEPLOYMENT

(U.S.$ millions)



The value we have captured by moving our capital from one sector to another illustrates the way our operating strategy works. Many of the $2.9 billion of assets we acquired during 1998 were purchased with the retail proceeds. We were able to buy office properties that have excellent potential for growth, at very attractive prices.

Most important, we significantly increased our return on equity from the re-invested capital. As the graph on this page demonstrates, the cash flow we expect to achieve from the office properties we bought to replace our retail properties will be 58% higher than it would have been had we kept the retail portfolio. Just two years after the sale – 58%. And we have been able to transfer many of the key people from our successful U.S. retail property business to Europe, where they will help create a new, potentially high-growth, portfolio.

That is the essence of our **create**, **enhance** and **capture** value strategy. We believe that the best way to grow a company in the real estate business is to create something of value, make it better and then harvest the gains by selling. Therefore, our capital and resources must be mobile, gravitating to properties and regions that are under-exploited and offer the greatest potential. And we must be flexible enough to respond to opportunities when we see them.

We will continue to execute this strategy, because we believe it is the best way to increase the value of TrizecHahn, and hence, capture value for our shareholders.

$1.9 billion re-invested

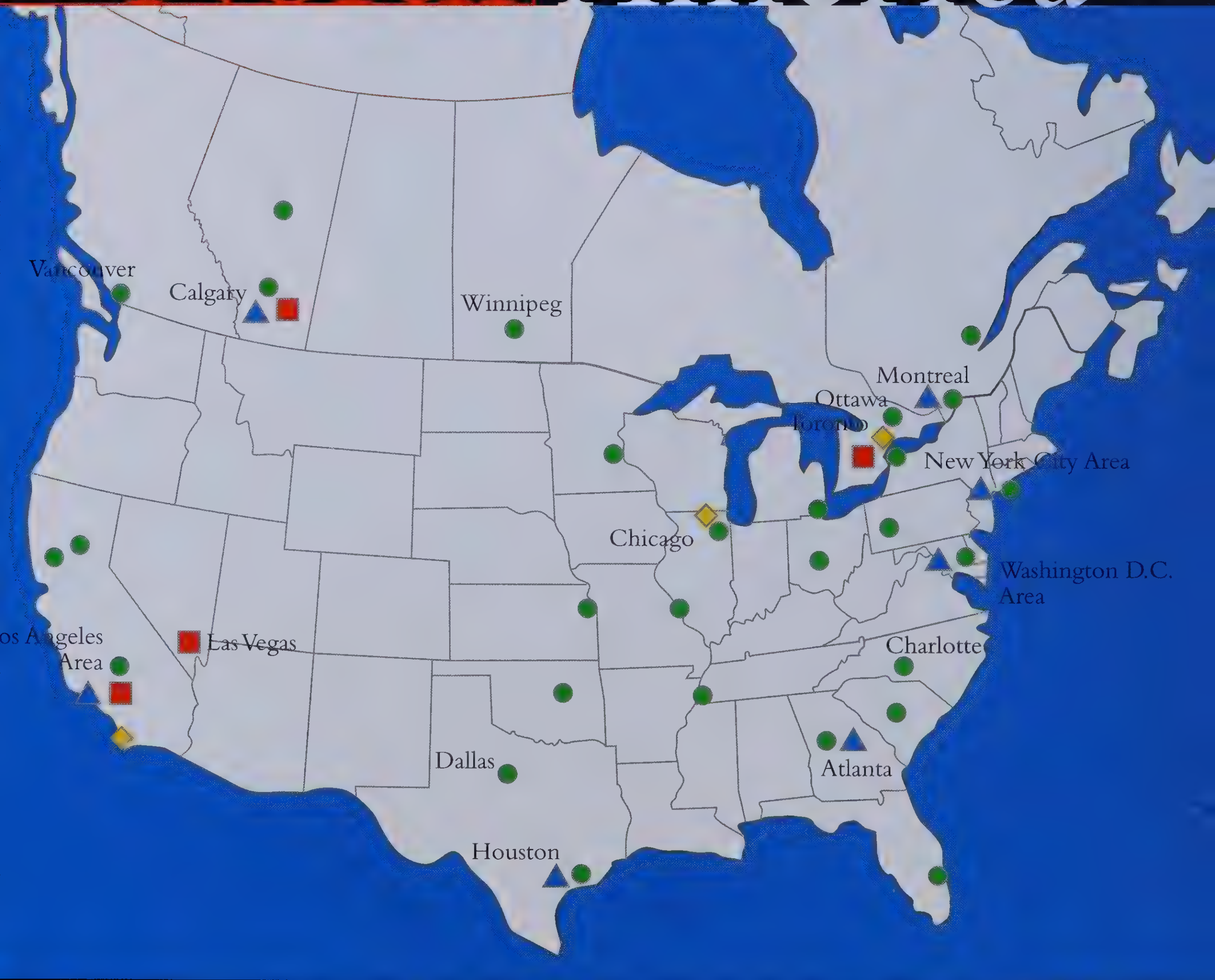
Capture

BOB SORENSON, *Senior Vice President, TrizecHahn Development Corporation*

In his 27 years with TrizecHahn, Bob Sorensen has had an opportunity to develop a comprehensive view of real estate management. After starting with the Company as a shopping center manager, Bob has since worked into the fields of marketing, management and leasing. Bob enjoys the complexities of large-scale projects and has excellent problem-solving skills. In 1997, Bob joined the asset management team and currently works on a variety of projects, identifying assets for acquisition and disposition, including the re-deployment of the retail proceeds.

METROPOLITAN SQUARE
St. Louis, MO

North America



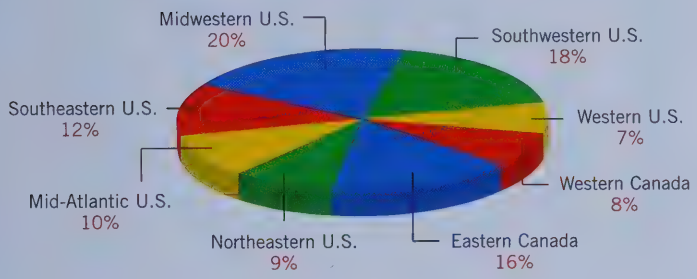
Legend

- Headquarters
- Office Properties
- Regional Offices
- Development Projects

North American Office Portfolio

Geographic Distribution

(By total leasable area at December 31, 1998)

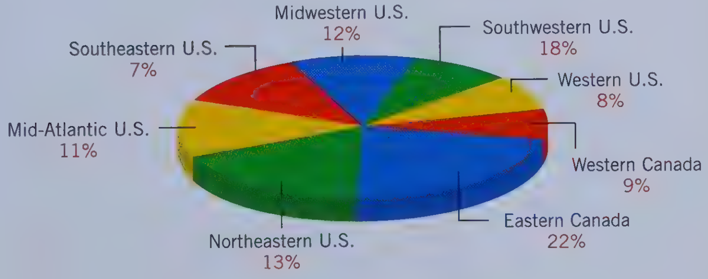


	sq. ft. millions	%
United States	48.0	76%
Canada	15.4	24%
Total	63.4	100%

Rental Income

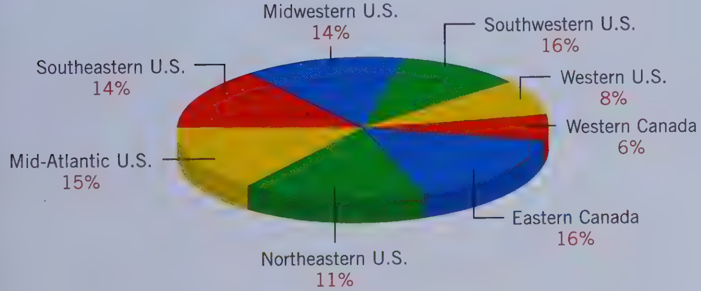
(For year ended December 31, 1998)

	$ millions	%
United States	300	69%
Canada	135	31%
Total	435	100%



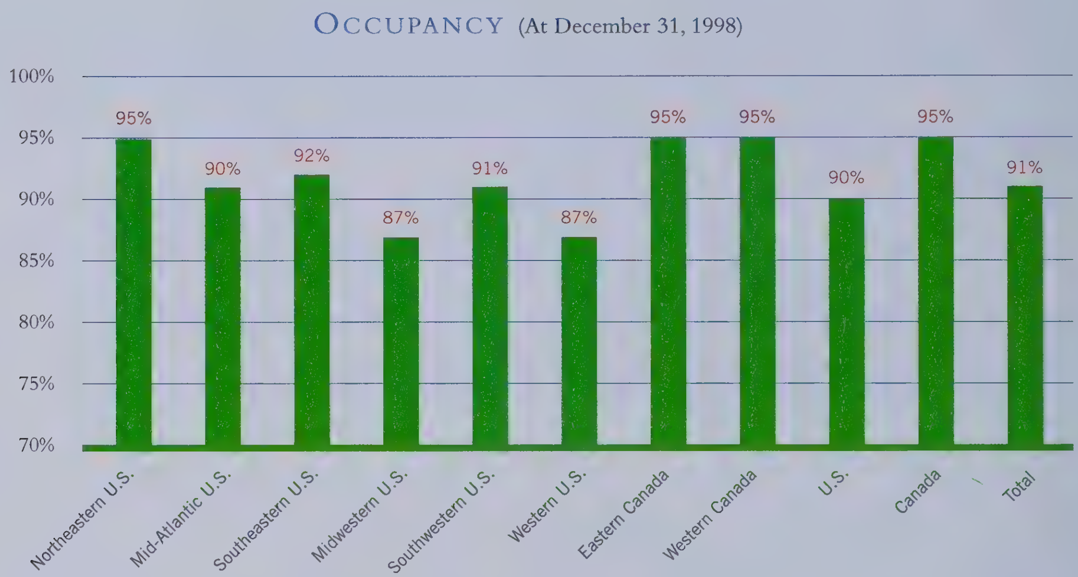
Net Book Value

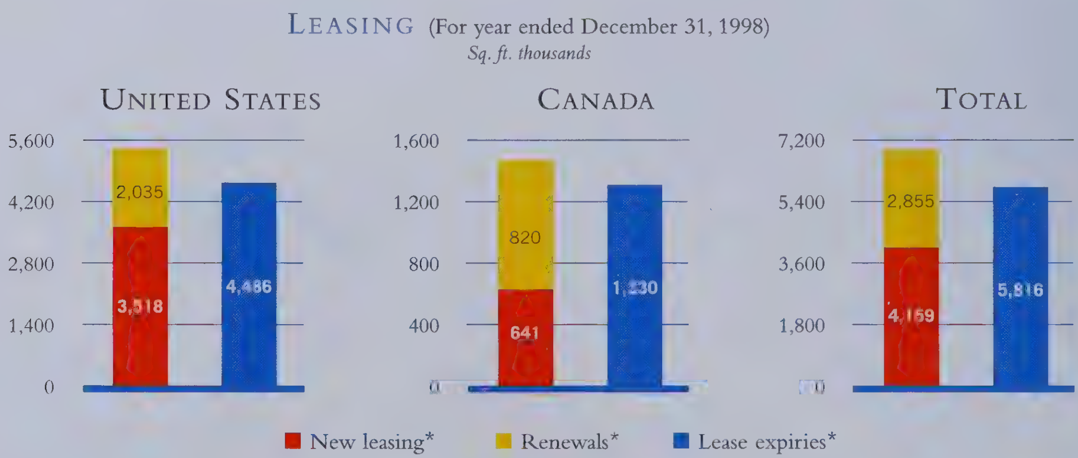
(At December 31, 1998)



	$ millions	%
United States	4,330	78%
Canada	1,210	22%
Total	5,540	100%

Operating & Leasing Highlights





For year ended December 31, 1998	United States	Canada	Total
Rental revenue ($ millions)	534	259	793
Rental income ($ millions)	300	135	435
Operating margin	56%	52%	55%
New leasing and renewals* (sq. ft. thousands)	5,553	1,461	7,014
Net leasing* (sq. ft. thousands)	1,067	131	1,198
Tenant installation costs ($ millions)	100	15	115
Tenant installation costs (per sq. ft.)	$19	$12	$18

*Represents 100% of portfolio, rather than TrizecHahn's proportionate share

Office Properties

United States

Name (Ownership)[1]	Location	Year of completion/ renovation	Office area (sq. ft.)	Retail area (sq. ft.)	Total leasable area (sq. ft.)	TrizecHahn owned area (sq. ft.)	Occupancy at Dec. 31, 1998
NORTHEASTERN U.S							
The Grace Building (50%)	New York, NY	1971	1,352,000	87,000	1,439,000	720,000	99%
World Apparel Center (50%)	New York, NY	1970	1,039,000	49,000	1,088,000	544,000	95%
1460 Broadway (50%)	New York, NY	1951	183,000	15,000	198,000	99,000	71%
1065 Ave. of the Americas (99%)	New York, NY	1958	586,000	40,000	626,000	620,000	99%
110 William Street	New York, NY	1960	840,000	–	840,000	840,000	87%
Newport Tower	Jersey City, NJ	1990	1,004,000	24,000	1,028,000	1,028,000	98%
First Stamford Place[2]	Stamford, CT	1984/86/87	774,000	–	774,000	–	98%
Total - Northeastern U.S.	(7 properties)		5,778,000	215,000	5,993,000	3,851,000	95%
MID-ATLANTIC U.S.							
2000 L Street, N.W.	Washington, D.C.	1968/98	313,000	73,000	386,000	386,000	69%
Watergate Office Building	Washington, D.C.	1965/91	197,000	77,000	274,000	274,000	97%
1400 K Street, N.W.	Washington, D.C.	1982	181,000	10,000	191,000	191,000	100%
1250 23rd Street, N.W.	Washington, D.C.	1990	117,000	–	117,000	117,000	100%
2401 Pennsylvania	Washington, D.C.	1991	76,000	–	76,000	76,000	100%
Beaumeade Corporate Park	Washington, D.C.	1990/98	234,000	–	234,000	234,000	99%
250 West Pratt Street	Baltimore, MD	1986	356,000	6,000	362,000	362,000	95%
Bethesda Crescent	Bethesda, MD	1987	250,000	14,000	264,000	264,000	95%
Plaza West	Bethesda, MD	1965	88,000	10,000	98,000	98,000	91%
Twinbrook Metro Park	Rockville, MD	1961/73/97	514,000	40,000	554,000	554,000	90%
Twinbrook Office Center	Rockville, MD	1988	154,000	9,000	163,000	163,000	95%
Twinbrook Metro Plaza	Rockville, MD	1986	164,000	–	164,000	164,000	100%
6006 Executive Boulevard	Rockville, MD	1963	42,000	–	42,000	42,000	100%
Silver Spring Centre	Silver Spring, MD	1987	199,000	17,000	216,000	216,000	97%
Silver Spring Metro Plaza	Silver Spring, MD	1986	640,000	48,000	688,000	688,000	88%
Goddard Corporate Park	Lanham, MD	1993	203,000	–	203,000	203,000	100%
Hanover Office Park[4]	Greenbelt, MD	1987	20,000	–	20,000	20,000	65%
Spring Park I & II	Herndon, VA	1985/86	359,000	–	359,000	359,000	97%
Sugarland West	Herndon, VA	1986	67,000	–	67,000	67,000	97%
Rosslyn Gateway	Arlington, VA	1970	250,000	–	250,000	250,000	90%
Waterview Building (80%)	Arlington, VA	1965	245,000	–	245,000	196,000	78%
1550 Wilson Boulevard	Arlington, VA	1983	129,000	–	129,000	129,000	34%
1560 Wilson Boulevard	Arlington, VA	1987	126,000	–	126,000	126,000	34%
Reston Crescent	Reston, VA	1980	251,000	–	251,000	251,000	100%
Sunrise Tech Park	Reston, VA	1983/85	313,000	–	313,000	313,000	100%
Courthouse Square	Alexandria, VA	1979	98,000	16,000	114,000	114,000	95%
Indian Creek Office Park	Sterling, VA	1981/85	97,000	–	97,000	97,000	100%
Total - Mid-Atlantic U.S.	(27 properties)		5,683,000	320,000	6,003,000	5,954,000	90%

Office Properties

United States

Name (Ownership)[1]	Location	Year of completion/ renovation	Office area (sq. ft.)	Retail area (sq. ft.)	Total leasable area (sq. ft.)	TrizecHahn owned area (sq. ft.)	Occupancy at Dec. 31, 1998
SOUTHEASTERN U.S.							
Colony Square	Atlanta, GA	1970/73/95	679,000	141,000	820,000	820,000	90%
Midtown Plaza	Atlanta, GA	1984/85	504,000	–	504,000	504,000	93%
Interstate North Parkway	Atlanta, GA	1973/84	808,000	–	808,000	808,000	95%
Camp Creek Business Center	Atlanta, GA	1989/90	258,000	–	258,000	258,000	72%
Highlands Overlook	Atlanta, GA	1985/86	246,000	–	246,000	246,000	97%
The Interchange	Atlanta, GA	1979	118,000	–	118,000	118,000	90%
Lakeside Centre	Atlanta, GA	1984/86	508,000	–	508,000	508,000	98%
Newmarket Business Park	Atlanta, GA	1979/89	590,000	–	590,000	590,000	94%
The Palisades	Atlanta, GA	1981/83	364,000	–	364,000	364,000	93%
NationsBank Plaza	Columbia, SC	1989	302,000	–	302,000	302,000	91%
1441 Main Street	Columbia, SC	1988	264,000	–	264,000	264,000	83%
1333 Main Street	Columbia, SC	1983	197,000	22,000	219,000	219,000	91%
NationsBank Plaza	Charlotte, NC	1974	854,000	22,000	876,000	876,000	94%
First Citizens Plaza	Charlotte, NC	1985	444,000	7,000	451,000	451,000	94%
Perimeter Woods	Charlotte, NC	1991/98	313,000	–	313,000	313,000	81%
Esperante Office Building	West Palm Beach, FL	1989	235,000	–	235,000	235,000	92%
Clark Tower	Memphis, TN	1973/97	561,000	89,000	650,000	650,000	91%
Total – Southeastern U.S.	(17 properties)		7,245,000	281,000	7,526,000	7,526,000	92%
MIDWESTERN U.S							
Sears Tower[3]	Chicago, IL	1974	3,446,000	66,000	3,512,000	–	93%
Two North LaSalle	Chicago, IL	1979	692,000	–	692,000	692,000	91%
10 South Riverside	Chicago, IL	1965	685,000	–	685,000	685,000	94%
120 South Riverside	Chicago, IL	1967	685,000	–	685,000	685,000	59%
Fisher Building	Detroit, MI	1928	543,000	92,000	635,000	635,000	79%
New Center One (67%)	Detroit, MI	1983	409,000	87,000	496,000	332,000	94%
Albert Kahn Building	Detroit, MI	1931	268,000	2,000	270,000	270,000	94%
Metropolitan Square	St. Louis, MO	1989	933,000	20,000	953,000	953,000	93%
St. Louis Place	St. Louis, MO	1983	304,000	–	304,000	304,000	95%
Two Pershing Square	Kansas City, MO	1986	511,000	–	511,000	511,000	88%
Williams Center I & II	Tulsa, OK	1982/83	768,000	–	768,000	768,000	93%
Northstar Center	Minneapolis, MN	1916/62/86	745,000	68,000	813,000	813,000	93%
Minnesota Center	Minneapolis, MN	1997	282,000	–	282,000	282,000	46%
Borden Building	Columbus, OH	1974	569,000	–	569,000	569,000	95%
Gateway Center	Pittsburgh, PA	1952/60	1,397,000	53,000	1,450,000	1,450,000	89%
Total – Midwestern U.S.	(15 properties)		12,237,000	388,000	12,625,000	8,949,000	87%

Office Properties

United States

Name (Ownership)[1]	Location	Year of completion/ renovation	Office area (sq. ft.)	Retail area (sq. ft.)	Total leasable area (sq. ft.)	TrizecHahn owned area (sq. ft.)	Occupancy at Dec. 31, 1998
SOUTHWESTERN U.S.							
Allen Center	Houston, TX	1972/78/80/95	3,112,000	64,000	3,176,000	3,176,000	95%
Cullen Center							
1600 Smith	Houston, TX	1984	1,108,000	–	1,108,000	1,108,000	99%
M.W. Kellogg Tower (50%)	Houston, TX	1978	1,035,000	–	1,035,000	518,000	95%
600 Jefferson	Houston, TX	1971	420,000	–	420,000	420,000	85%
500 Jefferson	Houston, TX	1962/83	373,000	–	373,000	373,000	90%
3700 Bay Area Blvd.	Houston, TX	1986	399,000	–	399,000	399,000	96%
Renaissance Tower	Dallas, TX	1974/92	1,678,000	53,000	1,731,000	1,731,000	93%
Bank One Center (50%)	Dallas, TX	1987	1,531,000	–	1,531,000	766,000	75%
McKinney Place	Dallas, TX	1985	141,000	–	141,000	141,000	100%
Plaza of the Americas	Dallas, TX	1980	1,098,000	61,000	1,159,000	1,159,000	89%
Park Central I & II	Dallas, TX	1970/71	261,000	–	261,000	261,000	84%
Total - Southwestern U.S.	(11 properties)		11,156,000	178,000	11,334,000	10,052,000	91%
WESTERN U.S.							
Citicorp Center (25%)	Los Angeles, CA	1985	896,000	338,000	1,234,000	309,000	83%
Marina Towers (50%)	Los Angeles, CA	1971/76	368,000	–	368,000	184,000	91%
9800 La Cienega	Los Angeles, CA	1985	336,000	–	336,000	336,000	94%
Encino Gateway	Los Angeles, CA	1978	338,000	–	338,000	338,000	84%
The Pinkerton Building	Los Angeles, CA	1970	200,000	–	200,000	200,000	85%
Warner Center	Los Angeles, CA	1980	384,000	–	384,000	384,000	98%
Landmark Square	Long Beach, CA	1991	416,000	33,000	449,000	449,000	83%
Shoreline Square	Long Beach, CA	1988	359,000	17,000	376,000	376,000	84%
One Concord Centre	Concord, CA	1986	346,000	–	346,000	346,000	90%
Capital Center II & III	Sacramento, CA	1984/85	542,000	–	542,000	542,000	91%
Total - Western U.S.	(10 properties)		4,185,000	388,000	4,573,000	3,464,000	87%
Total - United States	(87 properties)		46,284,000	1,770,000	48,054,000	39,796,000	90%

Office Properties

Canada

Name (Ownership)[1]	Location	Year of completion/ renovation	Office area (sq. ft.)	Retail area (sq. ft.)	Total leasable area (sq. ft.)	TrizecHahn owned area (sq. ft.)	Occupancy at Dec. 31, 1998
EASTERN CANADA							
Bell Trinity Square	Toronto, ON	1983	953,000	6,000	959,000	959,000	100%
Bell Data Centre	Toronto, ON	1969/77	459,000	–	459,000	459,000	100%
151 Front Street West	Toronto, ON	1954	212,000	45,000	257,000	257,000	99%
100 Borough Drive	Toronto, ON	1978	226,000	5,000	231,000	231,000	100%
North York Square	Toronto, ON	1974/75	227,000	1,000	228,000	228,000	94%
180 Wellington	Toronto, ON	1971	210,000	–	210,000	210,000	100%
347 Bay Street (50%)	Toronto, ON	1924	56,000	5,000	61,000	31,000	91%
1500 Don Mills	Toronto, ON	1979	219,000	–	219,000	219,000	85%
Place Bell Canada	Ottawa, ON	1971	941,000	44,000	985,000	985,000	99%
Place Ville Marie	Montreal, QC	1962/91	2,521,000	161,000	2,682,000	2,682,000	94%
Tour Bell	Montreal, QC	1983	974,000	43,000	1,017,000	1,017,000	99%
2020 University	Montreal, QC	1975	379,000	77,000	456,000	456,000	87%
200 Bouchard	Montreal, QC	1969/83	452,000	–	452,000	452,000	100%
Place Sherbrooke	Montreal, QC	1976	289,000	41,000	330,000	330,000	80%
360 Saint-Jacques	Montreal, QC	1928	312,000	4,000	316,000	316,000	74%
500 René-Lévesque[4]	Montreal, QC	1985	293,000	2,000	295,000	295,000	97%
Tour Jean Talon	Montreal, QC	1976	257,000	29,000	286,000	286,000	99%
Place Québec[4]	Quebec City, QC	1973/74	137,000	88,000	225,000	225,000	81%
Place Bell	Hull, QC	1991	203,000	2,000	205,000	205,000	99%
Total - Eastern Canada	(19 properties)		9,320,000	553,000	9,873,000	9,843,000	95%
WESTERN CANADA							
Bankers Hall	Calgary, AB	1989	866,000	240,000	1,106,000	1,106,000	98%
Calgary Place	Calgary, AB	1983	538,000	73,000	611,000	611,000	95%
Scotia Centre (50%)	Calgary, AB	1977	503,000	92,000	595,000	298,000	95%
Fifth & Fifth	Calgary, AB	1980	472,000	19,000	491,000	491,000	95%
Royal Bank	Calgary, AB	1970/91	331,000	–	331,000	331,000	98%
Canada Place[2]	Edmonton, AB	1988	765,000	79,000	844,000	–	100%
CN Tower	Edmonton, AB	1966	256,000	29,000	285,000	285,000	84%
Winnipeg Square	Winnipeg, MB	1983	561,000	60,000	621,000	621,000	98%
Royal Centre	Vancouver, BC	1974	506,000	104,000	610,000	610,000	92%
Total - Western Canada	(9 properties)		4,798,000	696,000	5,494,000	4,353,000	95%
Total - Canada	(28 properties)		14,118,000	1,249,000	15,367,000	14,196,000	95%
Total Office Properties	(115 properties)		60,402,000	3,019,000	63,421,000	53,992,000	91%

OTHER PROPERTIES

Name (Ownership)[1]	Location	Year of completion/ renovation	Office area (sq. ft.)	Retail area (sq. ft.)	Total leasable area (sq. ft.)	TrizecHahn owned area (sq. ft.)	Occupancy at Dec. 31, 1998
OTHER							
CN Tower[5]	Toronto, ON	1976/98			n/a		
Fashion Outlet of Las Vegas (95%)	Primm, NV	1998	–	363,000	363,000	345,000	74%
Number One Poultry	London, England	1998	110,000	32,000	142,000	142,000	40%
Total Properties at December 31, 1998	(118 properties)		60,512,000	3,414,000	63,926,000	54,479,000	
RECENT ACQUISITIONS[6]							
Galleria Towers I, II and III	Dallas, TX	1982/85/91	1,408,000	–	1,408,000	1,408,000	92%
1250 Connecticut, N.W.	Washington, D.C.	1964/96	155,000	16,000	171,000	171,000	84%
Total Properties including recent acquisitions	(120 properties)		62,075,000	3,430,000	65,505,000	56,058,000	

Notes:
(1) The economic interest of TrizecHahn's owning entity is 100% unless otherwise noted.
(2) TrizecHahn manages these properties on a performance basis. At Canada Place, TrizecHahn's economic interest is effectively limited to the residual space not held by the principal tenant, who is also the ground lessor. TrizecHahn has an economic interest in First Stamford Place and participates in refinancing or sales proceeds. Accordingly, these properties are excluded from operating statistics other than aggregate square footage calculations.
(3) TrizecHahn purchased a subordinated mortgage and option to purchase the property that gives it effective control over all aspects of the building, including property management and leasing. Accordingly, the property is excluded from operating statistics other than aggregate square footage calculations.
(4) Excludes condominium ownership.
(5) TrizecHahn is leasing the CN Tower for an initial 40-year period with two 15-year renewal options.
(6) These properties were acquired subsequent to year end and are therefore excluded from the 1998 portfolio information.

Europe

Legend

HEADQUARTERS

OFFICE/RETAIL PROPERTIES

REGIONAL OFFICES

DEVELOPMENT PROJECTS

Opportunities in Europe

In our view, the recent economic and political changes in Europe should strongly and positively impact the European economy. The launch of the euro has been smoother than expected, and business confidence is solid. The greater economic integration, price transparency, and market efficiency that we expect to see as a result of this convergence lead us to believe that there is a significant investment opportunity in Europe. In fact, in many of the countries we are targeting, GDP growth is expected to outpace the U.S. by the year 2000.

Countries have already completed significant fiscal reforms in order to be admitted – reducing government spending, budget deficits and debt levels – which should help decrease interest rates across Europe. Overweight corporations, long sheltered from competition by local regulations and prices, will find themselves competing in a larger, more competitive market. Prices should fall, mergers likely will abound, and industry will become more efficient, while capital markets will increasingly become like those in the U.S.

All of these factors combine to create an environment in which significant wealth and increased disposable income can be generated for the working population.

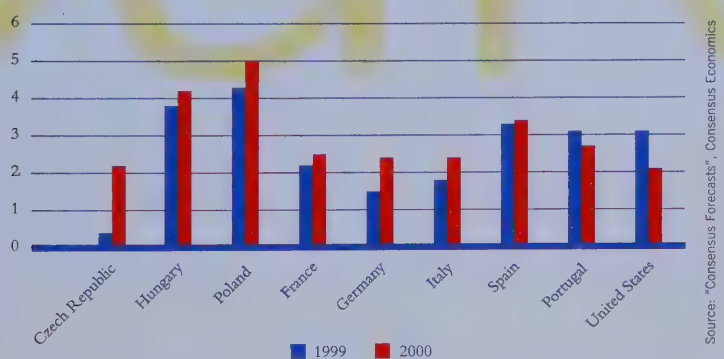
These changes will also create opportunity in the area of real estate. After all, real estate is an essential component of consumer spending – be that on food, clothing, brand names or mass hypermarkets, fast food, or movies and entertainment. If the face of consumer demand changes, the real estate market must change first.

In addition, we believe there will be pressure on politicians to be less protectionist, as they will be under more scrutiny than ever before. The result will be a dramatic move from the traditional High Street, to a more U.S.-type integrated mall shopping experience – offering ample parking and restaurants, movies and other forms of entertainment.

Furthermore, real estate opportunities will emerge as governments continue to sharpen their balance sheets, and hence look for additional privatization opportunities, including railroads and other land for development.

The dramatic changes brought about by the euro and the accelerating convergence of Europe's economies give us plenty of reason to focus our energies there. But there are also some exciting changes in European consumerism, which make it such an attractive place to invest our efforts and our money. For many years in Western Europe, U.S. shopping formats have exerted an increasing influ-

ESTIMATED GDP GROWTH IN
SELECT EUROPEAN COUNTRIES VS. U.S.



ence on retailing. Shopping centers, factory villages, and category killers are part of the retail landscape and have, in fact, changed the way Europeans shop.

There are a number of factors at work here: As the number of women in the workplace continues its rise, one-stop shopping has become the norm for millions of European families. Disposable incomes are rising, hence car ownership is rising, and we're seeing a parallel rise in one-stop suburban shopping. In turn, shopping hours should become more liberal. Essentially, Europe is ready for retail development the way the U.S. was 35 years ago.

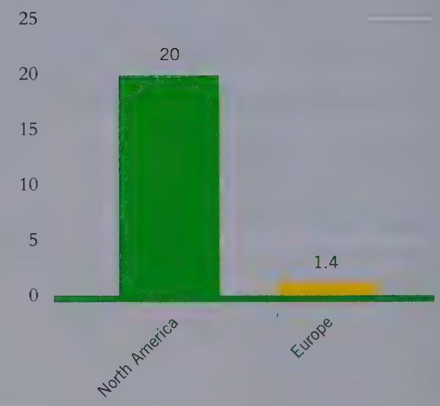
The trend, particularly among younger Europeans, is the move toward Western goods and U.S.-style centers – including multiplex cinemas, fast food restaurants and hypermarkets. Unfortunately, in Europe today, there just aren't many of these centers around. But it's not for lack of demand, particularly in Central Europe. While the traditional pattern of shopping each day for food is still prevalent, we are seeing changes in shopping patterns in Europe's emerging markets. In urban centers in particular, people are beginning to shop at large food stores once a week rather than every day. The advent of Western retailing is changing the way people view the shopping experience.

There is also a growing demand for North American lifestyle products. Take Coca-Cola for example. Europeans drink anywhere from 57 glasses of Coke a year in Romania, to 203 in Germany, to 417 in Iceland. In Central Europe, the toiletries and cosmetics market expanded by 144% between 1993 and 1996. At the same time, box office receipts are breaking records; by next year in Europe, cinema admissions are expected to rise by 150 million to 900 million, and the number of screens will increase from 19,424 to over 22,100.

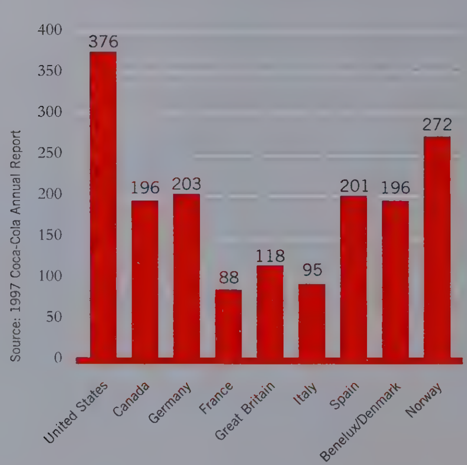
Many North American companies are already capitalizing on this increased demand. Coca-Cola now serves 209 million Cokes per day in Europe: that's an increase of 9% in 1998. Likewise, McDonalds, who in 1987 had 753 restaurants in Europe, had increased that number to 3,886 by 1997. Yet for all this rush to Western-style consumerism, industry analysts say the market is still in its infancy.

International retailers are sensing the demand for their products and are – in increasing numbers – seeking to seize and secure market share. To date, their expansion has been hindered by a lack of quality space in multiple locations into which to expand. They are pushing up the demand for good retail space – a demand that we at TrizecHahn believe will remain strong for many years to come. With our experience and European business plan, we are highly qualified to meet that demand.

Shopping Center Space per Capita
(square feet)



Annual Coca-Cola Consumption Per Capita



DEVELOPMENT PIPELINE

Project Name	Location/ Type	Description	Size	Expected Completion	TrizecHahn Cost	Total Cost
			sq. ft.		*$ millions*	*$ millions*
NORTH AMERICAN PROJECTS						
Bankers Hall II	Calgary, Alberta Office	A 50-story, Class A office tower represents the second and final phase of this 2.1 million square foot office and retail complex started in 1986.	800,000	Spring 2000	$ 120	$ 120
Bay-Adelaide Centre	Toronto, Ontario Office	A 50-story, Class A office tower, including two enclosed podium office levels; 55,000 square feet of concourse, ground and second level retail, and a 3-level, 1,100-stall parking garage (already built).	1,300,000	Pre-leasing	100	200
Hollywood & Highland	Los Angeles, California Retail/ Entertainment	A premiere retail/entertainment complex, home to the Academy Awards® ceremonies. The project also includes a four-star, 525-room, 600,000 square foot hotel; world-class restaurants; fashion retailers; production facilities and more.	640,000	Spring 2001	260	430
Desert Passage at Aladdin	Las Vegas, Nevada Retail/ Entertainment	A single-level, enclosed, upscale specialty retail/ entertainment complex surrounding the state-of-the-art re-developed Aladdin Hotel & Casino.	450,000	Summer 2000	160	260
EUROPEAN PROJECTS						
West End City Center	Budapest, Hungary Retail/ Entertainment	The center will include retail, entertainment and office elements in a series of buildings that complement the surrounding historic architecture.	900,000	Winter 1999	100	200
Olympia	Czech Republic Retail/ Entertainment	Five projects, each containing a hypermarket, retail, multiplex theater and restaurants will provide a strong combination of shopping, entertainment and leisure under one roof.	2,500,000 (total)	Fall 1999- Fall 2001	170	300
Bratislava	Slovakia Retail/ Entertainment	The center will include a hypermarket, large sporting and electronic goods stores, a 7-screen multiplex, family entertainment, food court, themed restaurants and fashion stores.	600,000	Summer 2000	40	80
Riofisa	Spain Retail/ Entertainment	Several projects: A re-development of the Prinicipe Pio rail station in Madrid will take advantage of the large volume of people daily. Bonaire Park, in Valencia, will be among Southern Europe's largest retail/entertainment projects.	1,800,000 (total)	April 2001/ March 2000	55	165
Total	13 Projects (2 Office/11 Retail; 4 North America/9 Europe)		8,990,000		$1,005	$1,755

Note: The above project descriptions and costs may change.

Financial Review

1998

Financial Highlights

For the years ended December 31 (U.S.$ millions, except per share amounts)	1996 Pro Forma*	1997	1998	Change 1997 to 1998
Rental Revenue	$ 597	$ 714	$ 964	+ 35%
Rental Income	339	396	542	+ 37%
Cash Flow from Real Estate Operations	126	176	269	+ 53%
Per share, basic	0.92	1.19	1.76	+ 48%
Per share, fully diluted	0.89	1.16	1.65	+ 42%
Net Income	25	48	530	+ 1,004%
Per share, basic	0.18	0.32	3.46	+ 981%
Per share, fully diluted	0.18	0.32	3.11	+ 872%

At December 31 (U.S.$ millions)	1996	1997	1998	Change 1997 to 1998
Real Estate Assets	$ 3,813	$ 5,130	$ 6,695	+ 31%
Total Market Capitalization	5,438	6,572	7,118	+ 8%
Net Debt to Market Capitalization	37%	43%	49%	
Interest Coverage	1.72:1	1.97:1	2.20:1	

* See Note 1 to consolidated financial statements.
All dollar amounts shown in this report are in U.S. dollars unless otherwise noted.

Management's Discussion and Analysis of Operations and Financial Condition

The following should be read in conjunction with the Consolidated Financial Statements and the notes thereto appearing later in this Annual Report, as well as the paragraph regarding forward-looking statements on page 105.

Overview

TrizecHahn is a major integrated real estate development and operating company. It owns, develops and manages office buildings and mixed-use properties in the United States, Canada and Europe. Through its development units, the Corporation creates retail/entertainment and office projects in North America and Europe.

With total assets of $7.6 billion and total market capitalization (including long-term debt) at December 31, 1998 of approximately $7.1 billion, the Corporation is one of the largest publicly traded real estate companies in North America. At December 31, 1998, the Corporation owned interests in a North American portfolio of 117 properties containing approximately 64 million square feet, of which TrizecHahn's ownership interest was approximately 54 million square feet. Subsequent to December 31, 1998, the Corporation acquired two additional office properties in the U.S., bringing its North American portfolio at March 4, 1999, to 119 properties comprising approximately 65 million square feet.

The Corporation is pursuing an expansion program aimed at applying its North American real estate expertise to European markets, with the goal of creating a pan-European real estate business.

Create, Enhance and Capture

In 1998, the Corporation continued to execute its philosophy of "create, enhance and capture" across a diversified platform of opportunities. With the sale of its unencumbered investment in Barrick in February 1998, the Corporation completed its commitment to become a pure real estate development and operating company. The proceeds from the Barrick sale and the net proceeds from the $2.6 billion sale of the U.S. retail center portfolio were re-deployed into 70 higher-yielding, growth-profile office properties in key markets.

The retail portfolio sale confirmed this value-creation philosophy as the net proceeds from this sale alone exceeded the cumulative purchase costs of Trizec Corporation Ltd. (see Note 13 to the Consolidated Financial Statements)

Value Creation
($ millions)

Purchase of Trizec Corporation Ltd.	
Recapitalization of Trizec (1994)	$ 526
Merger of Horsham and Trizec (1996)	519
	$ 1,045
Net proceeds from disposition of U.S. retail portfolio	$ 1,231

The intention is to repeat this strategy in Europe where key members of the retail management team were re-deployed in order to capitalize on the opportunities created by fundamental economic changes.

Operating and Capital Strategies

TrizecHahn's operating strategy is focused on enhancing shareholder value by generating sustained growth in operating cash flow and by creating realizable appreciation in real estate value. The Corporation believes it can achieve this goal by applying its core competencies of disciplined investing, development expertise, superior property management and leasing, and strategic asset management to the following:

- opportunistically acquiring properties;
- developing and re-developing properties in Europe and North America;
- maximizing cash flow from existing properties; and
- continuing active asset management including sell discipline.

This multi-dimensional operating strategy should ensure a continued pipeline of growth opportunities in the short-, medium- and long-term. TrizecHahn's operating strategy is supported by a prudent capital strategy that includes the following key elements:

- ensuring there is ample capital available at all times;
- utilizing an appropriate degree of leverage;
- allocating capital between product line, investment type (acquisitions or developments), and geography (the U.S., Canada or Europe) based on the best risk-adjusted total returns;

- actively managing its exposure to interest rate and foreign currency fluctuations; and
- managing capital in international projects.

The discussion that follows aims to build an understanding of how these strategies affect TrizecHahn's operating results and shareholder value. It also includes a review of the risks, opportunities and trends likely to have an impact on TrizecHahn's future performance.

Results of Operations

TrizecHahn continued to achieve strong financial results for the year ended December 31, 1998, reflecting the ongoing success of its growth-oriented operating strategy. Cash flow from real estate operations for the year ended December 31, 1998, was 53% higher than in 1997, surpassing the 40% increase over 1996. Results for 1996 are presented on a pro forma basis (see Notes 1 and 13 to the Consolidated Financial Statements).

The significant increase in net income for 1998, compared with 1997, includes the effects of the $452 million net gain on sale of properties and the $193 million net gain on the sale of the unencumbered Barrick shares. The review of 1998 operations focuses first on the year-over-year changes in the key components of cash flow from real estate operations and then on the other key components of net income.

Analysis of Cash Flow from Real Estate Operations

Cash flow from real estate operations was approximately $269 million, $1.76 per share or $1.65 fully diluted, for the year ended December 31, 1998, compared with $176 million, $1.19 per share or $1.16 fully diluted, for 1997. This significant increase was primarily due to the impact of office acquisitions made in late 1997 and throughout 1998.

Cash Flow from Real Estate Operations

For the years ended December 31

($ millions, except per share amounts)

	Change			Pro Forma
	1998-97	**1998**	1997	1996
Rental income				
Office properties				
U.S.	$ 151	**300**	149	88
Canada	30	**135**	105	101
	181	**435**	254	189
U.S. retail centers	(35)	**107**	142	150
Total rental income	146	**542**	396	339
Interest expense, net	(45)	**(231)**	(186)	(180)
General and administrative expense	(6)	**(35)**	(29)	(29)
Current taxes	(2)	**(7)**	(5)	(4)
Cash flow from real estate operations (FFO)	$ 93	**269**	176	126
Per share:				
Basic	$ 0.57	**1.76**	1.19	0.92
Fully diluted	$ 0.49	**1.65**	1.16	0.89

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"), with the major differences from U.S. GAAP described in Note 14 to the Consolidated Financial Statements. Specifically, the major differences are as follows: the Corporation uses the proportionate consolidation method of accounting for joint ventures rather than the cost or equity methods; carries its shares of Barrick at cost rather than at market value; follows the deferral method of accounting for income taxes rather than the liability method; recognizes rental revenue over the term of its operating leases as it becomes due rather than on a straight-line basis; and depreciates properties using the sinking fund method rather than the straight-line method.

In the U.S., The National Association of Real Estate Investment Trusts ("NAREIT") has adopted a measurement called Funds From Operations ("FFO") to supplement net income as a measure of operating performance. This measurement is considered to be a meaningful and useful measure of real estate operating performance. The Corporation's presentation of Cash Flow from Real Estate Operations is consistent with NAREIT's definition of FFO, except that FFO would include any increase or decrease in income due to straight-line revenue recognition. As described in Note 14 to the Consolidated Financial Statements, under U.S. GAAP, TrizecHahn's 1998 FFO would have been approximately $284 million (or $15 million higher) due to the impact of the straight-line rent method of revenue recognition. FFO does not represent cash flow from operations as defined by Canadian GAAP. This measure is not necessarily indicative of cash available to fund cash needs and should not be considered as an alternative to cash flow as a measure of liquidity.

Rental Income

Rental income for the year ended December 31, 1998 was approximately $542 million, compared with $396 million in 1997 and $339 million in 1996. The 1998 increase in rental income was achieved despite the sale of the retail portfolio. TrizecHahn derived approximately 80% (1997 - 64%) of its total rental income from office properties and 20% (1997 - 36%) from retail properties for the year ended December 31, 1998. Approximately 75% (1997 - 73%) of this income was from properties in the United States and 25% (1997 - 27%) from properties in Canada. The staged sale of the retail portfolio throughout 1998 significantly impacted rental income composition and year-over-year comparability. Given the Corporation's re-deployment of proceeds into the office portfolio, the analysis that follows focuses on the office portfolio.

A majority of the space in TrizecHahn's office portfolio is in Class A properties located in central business districts ("CBD") of major North American cities, such as Calgary, Chicago, Dallas, Houston, Los Angeles, Montreal, New York, and the Washington, D.C. area. In 1998, the Corporation added a number of well-positioned, attractively-priced suburban properties to its office portfolio. These properties enhance TrizecHahn's competitive position in key markets such as Atlanta and the Washington, D.C. area. At December 31, 1998, the U.S. office portfolio was comprised of 87 buildings aggregating 48 million square feet. The Canadian office portfolio was comprised of 29 buildings aggregating 15 million square feet.

Office rental income increased 71% to $435 million in 1998, from $254 million in 1997. Most of this increase was due to the acquisition, primarily in the U.S., of office properties comprising 13.4 million square feet during 1997 and 26 million square feet throughout 1998. Overall, the proportion of office income from the U.S. to total office income increased to 69% from 59% in 1997. Rental income consists of base rent, percentage rent and operating cost recoveries, less cost of operations and property taxes. The following table identifies the principal factors contributing to the improved rental income performance.

OFFICE RENTAL INCOME CHANGE 1998 VS. 1997
($ millions)

	U.S.	Canada	Total
Performance of comparable properties	$ 11	2	13
Acquisitions	140	43	183
Dispositions and other	–	(15)	(15)
TOTAL INCREASE IN RENTAL INCOME	$ 151	30	181

The increase in rental income from comparable properties (i.e. those properties owned both at December 31, 1998 and 1997, and in each case for a full fiscal year) was $13 million or 7% in 1998, primarily due to increased occupancy as markets continued to improve. In the U.S. office portfolio, the comparable properties growth was 9%, which reflects increased occupancy of 5 percentage points and increasing rental rates in key markets such as Houston and Dallas. In the Canadian office portfolio, the comparable properties growth was 2%, with increased occupancy of 1 percentage point, primarily in Montreal. While this year-over-year

growth was strong, it would have been even greater if it reflected the benefit of operational and leasing improvements for those properties acquired during 1997 and throughout 1998.

The 1998 office rental income was less than what the annualized rental income would have been for those properties held at December 31, 1998. Rental income from a significant number of acquisitions has been included for part of 1998. Annualizing actual 1998 rental income from properties acquired during 1998 would result in total office rental income in 1998 of approximately $574 million. (U.S. office - $431 million, Canadian office - $143 million). Rental income in 1999 will benefit from the acquisition in January 1999, for $260 million, of Galleria Towers in Dallas and 1250 Connecticut Avenue in Washington, D.C.

In the office portfolio, during 1998, the Corporation signed leases totaling 7 million square feet, of which TrizecHahn's proportionate interest was 6.5 million square feet, consisting of 5.1 million square feet in the U.S. and 1.4 million square feet in Canada. This strong leasing activity raised total office portfolio occupancy by 2 percentage points to 91%. Occupancy at December 31, 1998, as compared to December 31, 1997, increased from 87% to 90% in the U.S., while in Canada it increased from 93% to 95%. During 1998, the improvement in rental income as a result of contractual rent increases in existing leases was supplemented by rental rates on new and renewing leases being higher than those of expiring leases by $1.25 per square foot in the U.S. and slightly less than $1 per square foot in Canada. This reflects the continued improvement in the markets and the impact of space rolling over at properties with in-place rents below the current market rents. This compares with a roll-down in rents of $1 per square foot in 1997, $2 in 1996 and 1995, and $3 in 1994.

Interest Expense, Net

The year-over-year improvement in rental income in 1998, as compared with 1997, was only partially offset by higher net interest expense. The following principal factors accounted for this increase.

Analysis of Increase in Interest Expense, Net
($ millions)

Acquisitions	$ 91
Dispositions	(26)
Interest income	(17)
Senior Notes - partial redemption	(5)
Unsecured debentures issued	13
Interest capitalized on active developments	(11)
Total increase in interest expense, net	$ 45

The U.S. office property acquisitions in the latter part of 1997 and throughout 1998 contributed to higher interest expense in 1998. The disposition of a number of retail centers in 1997 and the retail portfolio sale in 1998 significantly decreased interest expense. Interest income earned on cash balances and short-term investments increased in 1998 primarily due to the timing of the re-deployment of retail sale proceeds.

Several capital transactions were executed during 1998, which had a favorable impact on interest expense. These transactions helped reduce the Corporation's overall weighted average interest rate to 7.16% at December 31, 1998, from 7.85% at the end of 1997. Unsecured debentures in the amount of $189 million (C$275 million) were issued in May 1998 at a fixed interest rate of 6.10%. In July 1998, the Corporation, on a private placement basis, issued three series of secured notes in the amount of $340 million (C$500 million), at a weighted average interest rate of 6.14%, the proceeds of which were used to provide permanent financing in connection with the acquisition of the Bell Canada office portfolio. Acquisition financing, for office properties purchased with the proceeds from the retail portfolio sale, was obtained at more favorable interest rates than the $1.1 billion of debt repaid on the retail properties sold.

The interest coverage ratio (defined as rental income less general and administrative expense divided by interest expense, net) improved to 2.20:1 for the year ended December 31, 1998, from 1.97:1 in 1997 and 1.72:1 in 1996. This improvement was due primarily to underlying operations.

Interest expense, net, includes the effects of a significant number of acquisitions and dispositions for a partial year. Annualizing the actual interest expense on property acquisitions, eliminating interest expense on assets disposed of, and annualizing the impact of the capital transactions noted above for an entire year would result in estimated interest expense, net, of approximately $236 million in 1998.

General and Administrative Expense

General and administrative costs include only expenses for corporate level and asset management functions. Expenses for property management and fee-based services are recorded as a reduction of rental income. Corporate level expenses relate primarily to public company governance, business development, reporting, and management functions. General and administrative expenses were $6 million higher for the year ended December 31, 1998, as compared to the prior year, primarily due to the larger size and scope of operations in 1998. As a percentage of rental revenue, general and administrative expense decreased from 4.1% to 3.6% on a year-over-year basis. For 1999, general and administrative expense is anticipated to be impacted by the "start-up" nature of European operations, as certain research and business development expenses may not be immediately recoverable or directly attributable to active development projects.

Sensitivity Analysis

To assist in understanding the influence of certain macroeconomic drivers that directly impact real estate performance as measured by cash flow from real estate operations (FFO), the following analysis is provided.

SENSITIVITY ANALYSIS

	Increase or Decrease	Impact on annual FFO
		($ millions)
INTEREST RATE		
Interest expense, gross	100 basis points	$ 13
Interest expense, net	100 basis points	7
RENTAL RATE	$ 1	5
OCCUPANCY	1 percentage point	6
CANADIAN CURRENCY	1¢	1

These resultant sensitivity impacts are based upon TrizecHahn's current financial position and operating portfolio and are not necessarily indicative of future events.

Analysis of Net Income

Net income in 1998 was $530 million, $3.46 per share or $3.11 - fully diluted, up from $48 million, $0.32 per share or $0.32 fully diluted in 1997.

In 1998, net income before unusual items increased $50 million, over 1997 net income, to $118 million. This improvement is primarily attributable to the significant increase in cash flow from real estate operations. The following table summarizes the key recurring and non-recurring components of net income for the years ended December 31, 1998, 1997 and 1996.

NET INCOME ANALYSIS
For the years ended December 31
($ millions)

	1998	1997	Pro Forma 1996
CASH FLOW FROM REAL ESTATE OPERATIONS	$ 269	176	126
Depreciation expense	(74)	(50)	(40)
Exchangeable debentures interest expense, net	(24)	(20)	(28)
Deferred income taxes - operations	(53)	(38)	(17)
	118	68	41
Gain on sale of properties (net of deferred income taxes)	269	-	-
Gain on sale of Barrick shares (net of deferred income taxes)	143	-	-
Other items (net of deferred income taxes)	-	(20)	(16)
NET INCOME	$ 530	48	25
PER SHARE			
Basic	$ 3.46	0.32	0.18
Fully diluted	$ 3.11	0.32	0.18

In April 1998, the Corporation entered into an agreement to sell its U.S. retail center portfolio. The agreement provided for staged multiple closings, all of which were completed by December 1998 and resulted in the Corporation recording a net gain on sale of $452 million before deferred taxes. The Corporation has used the net proceeds from certain of the sales to acquire other U.S. properties in accordance with the "like-kind exchange" provisions of section 1031 of the United States Internal Revenue Code and thereby deferred gains for tax purposes. In order to facilitate these tax efficient transactions, the Corporation acquired, at a cost of $544 million, its joint venture partners' interests in certain of the retail centers prior to closing. The retail sale transaction is summarized as follows.

Retail Sale Summary

($ millions)

Proceeds from sale	$ 2,566
Debt repaid on sale	(1,114)
Net sale proceeds	1,452
Partner buyouts	(544)
Financing of partner buyouts	323
Net partner buyouts	(221)
Net proceeds	$ 1,231

In February 1998, the Corporation sold its unencumbered shares of Barrick for gross proceeds of $513 million. The majority of the shares were sold to the public by way of an underwritten secondary offering on an installment basis, with the balance sold on a fully paid basis. For the installment sales, approximately $272 million was received at closing, with the balance of $182 million (C$264 million) received on February 3, 1999. The gain generated by the sale, before deferred taxes, amounted to $193 million.

Depreciation expense was $24 million higher than the prior year due, in part, to the acquisitions made in 1998 and the second half of 1997. Depreciation expense also increases with the build-up of tenant installation costs which are amortized over the term of the respective lease, and with the compounding effect of applying the sinking fund method of depreciation. In 1998, the depreciation expense related to the amortization of tenant installation costs for the office portfolio amounted to $25 million.

The increase in exchangeable debentures interest expense, net, is attributable to the sale of the Corporation's unencumbered shares of Barrick and the loss of the associated dividend income ($5 million for the year ended December 31, 1998 and $9 million for 1997), which is included in exchangeable debentures interest expense. The recognition of dividends from Barrick in income during 1998 and 1997 is the result of the Corporation's adoption of the cost method of accounting for its investment in Barrick, effective December 31, 1996. In 1996, under the equity method of accounting, dividends received of approximately $8 million were not recognized in income.

TrizecHahn's provision for deferred income taxes against operations was approximately 30% of net income before taxes in 1998. This rate is lower than the combined basic Canadian federal and provincial income tax rate of approximately 45%, largely due to lower income tax rates applicable to income earned from operations in the United States and to the utilization of previously unrecognized tax losses against Canadian income. The actual cash taxes paid, which are deducted from cash flow from real estate operations, relate to franchise and state income taxes in the U.S. and tax on large corporations in Canada.

In 1998, deferred income taxes in the amount of $183 million were recorded in connection with the Corporation's gain on sale of properties of $452 million, resulting in a net gain of $269 million. The Corporation has deferred a substantial portion of the approximately $1.2 billion taxable gain and current income taxes associated with this transaction by using the net proceeds from the sales of 12 of the 19 properties to acquire other U.S. properties in accordance with the "like-kind exchange" provisions. Available net operating losses were utilized to offset taxable gains generated by the sale of the seven other properties. In the United States, at December 31, 1998 the Corporation had approximately $238 million (compared to $330 million in 1997) in net operating losses available for utilization in future years, for which the potential benefits have been recorded in the balance sheet as a reduction of deferred income tax liabilities. These losses are available to be utilized against cash taxes otherwise payable in future years.

The Corporation has also recorded deferred income taxes in the amount of $50 million related to the gain on sale of Barrick shares of $193 million, resulting in a net gain of $143 million. Tax-loss carry-forwards were used to reduce the 1998 taxable income generated by the sale of the Barrick shares. The deferred income taxes recorded relate primarily to the Barrick share sale installment receivable received in February 1999. In Canada at December 31, 1998, the Corporation had tax-loss carry-forwards, income tax deductions and capital losses amounting to approximately $189 million (compared to $294 million in 1997) available to reduce future taxable income and taxable capital gains, the potential benefits of which have not been recognized in the accounts.

While the Corporation does not have current federal income tax liabilities in either Canada or the United States due to tax-loss carry-forwards available in each country to eliminate regular taxable income, this status, on an ongoing basis, is dependant upon the nature of operations and asset management and tax planning strategies. Given the current level and nature of operations, the Corporation's existing tax-loss carry-forwards should be sufficient to offset taxable income for two years or more. The Corporation will continue to actively manage its tax affairs.

Other items (net of deferred tax) of $20 million in 1997 include the loss on early debt retirements resulting from the premiums paid to retire the 11% mortgage indebtedness related to Place Ville Marie and $83 million of the principal amount of the 10.875% Senior Notes due October 2005. Also included in the $20 million is the $5 million gain on the sale of Clark USA Inc. recognized upon the Corporation's disposal of its investment in November of 1997. In 1996, the charge of $16 million included $8 million of equity accounting losses of Clark and $8 million of certain one-time and non-cash charges, on a net-of-tax basis, related to the period prior to the Merger and the Merger itself.

Acquisition and Development Activity

As reflected in the Consolidated Statement of Cash Flows, the following property investment activities occurred in 1998.

Property Investment Analysis
($ millions)

	Office				
	U.S.	Canada	Retail	Europe	Total
Acquisitions	$ 2,330	567	–	–	2,897
Development expenditures	11	52	192	123	378
Tenant installation and capital expenditures (excluding free rent granted)	106	18	4	–	128
Dispositions of rental properties, net	–	(153)	(2,077)	–	(2,230)
Net property investment activities	$ 2,447	484	(1,881)	123	1,173

The $2.9 billion of property acquisitions relate entirely to the office portfolio as 70 properties, totaling 26.4 million square feet, were acquired during 1998.

1998 Office Acquisitions

	Acquisition Cost ($ millions)	# of Properties	Square Feet (in millions)
United States			
Northeastern	$ 88	1	0.8
Mid-Atlantic	897	27*	6.1*
Southeastern	575	14	6.0
Midwestern	360	7	4.0
Southwestern	175	3	1.8
Western	235	4	1.7
Total	2,330	56	20.4
Canada			
Eastern	567	14	6.0
Total	$ 2,897	70	26.4

* includes Bethesda Crescent acquired in December 1997 as part of the acquisition of the office portfolio of The JBG Companies.

During the first quarter of 1999, the Corporation completed the acquisition of two U.S. office buildings for $260 million. The two properties, located in Dallas and Washington, D.C., aggregate approximately 1.6 million square feet.

Development expenditures in the Canadian office group primarily reflect the ongoing construction of Bankers Hall II in Calgary. In the retail group, development activity reflects the completion of Fashion Outlet of Las Vegas which opened in July 1998, and land assembly and construction activity at Desert Passage at Aladdin in Las Vegas and at Hollywood & Highland in Los Angeles. In addition, development expenditures were incurred for remodels and expansions on certain retail operating properties prior to their disposal.

In Europe, development expenditures related primarily to the formation of a joint venture in the Czech Republic to develop five hypermarket - based retail centers, the formation of a joint venture in Spain to develop regional malls and railway station redevelopment projects, construction activity at the West End City Center project in Budapest, Hungary and the completion of Number One Poultry in London, England.

In addition to the sale of the retail portfolio, the Corporation, as part of an overall settlement of its litigation with its joint venture partner, sold its 50% interest in the Calgary office property, Western Canadian Place, to the partner. As planned, the Corporation also disposed of five non-strategic properties totaling 1.3 million square feet, which it had acquired as part of the Bell Canada portfolio acquisition.

Consistent with prior years, the Corporation valued its portfolio of rental properties, confirming that the fair-market value of the portfolio exceeded its carrying value. The Corporation follows a methodology for reviewing the fair-market value of the portfolio, whereby approximately one-third of the internal portfolio valuations are independently assessed each year, on a three-year rotational basis. Landauer Associates has reviewed and concurred with the portfolio valuations as determined by the Corporation at December 31, 1998.

Tenant Installation Costs

TrizecHahn's operating properties require periodic investments of capital for tenant installation costs related to new and renewal leasing. The absolute amount of tenant installation costs is less relevant than the cost on a per square foot basis, because the former measure is impacted by the number of square feet of leases signed and in occupancy in any given period. Tenant installation costs consist of tenant allowances (including free rent granted) and leasing commissions. The Corporation expects that tenant installation costs should decline in the near-term on a per square foot basis as market conditions in its target markets continue to stabilize. The following table reflects tenant installation costs for both new and renewing office leases.

Tenant Installation Costs

For the years ended December 31
(in millions, except per sq.ft. amounts)

	1998	1997	Pro Forma 1996
Square feet leased(1)			
- new leasing	3.8	2.0	1.4
- renewal leasing	2.7	1.3	1.7
Tenant installation costs, including free rent	$ 115	46	40
Tenant installation costs per square foot	$ 18	14	13
Tenant allowance costs per square foot	$ 13	11	10

(1) Represents the Corporation's proportionate share of square feet leased.

During 1998, of the $115 million of office tenant installation costs, only approximately $18 million ($7 p.s.f.) was incurred to renew existing tenants. In total dollars, the Corporation expects that the lease-up of vacant space in its recent acquisitions will contribute to higher spending on tenant installation costs. In 1998, approximately $37 million of the tenant installation costs were attributable to 2.1 million square feet of leasing activity at properties acquired in 1997 and 1998.

Capital Expenditures

To maintain the quality of its properties and preserve long-term value, TrizecHahn pursues an ongoing program of capital expenditures, certain of which are not recoverable from tenants. In 1998, recurring capital expenditures for the office portfolio were $11 million or $0.25 per square foot owned, as compared to $6 million or $0.24 per square foot owned in 1997. The Corporation believes that routine recurring capital expenditures for the office portfolio will average approximately $0.20 - $0.25 per square foot owned on an annual basis.

In addition to routine capital expenditures, expenditures were made in connection with non-recurring events such as code-required enhancements, and upgrades to common areas, lobbies and elevators. Furthermore, as part of its office acquisition strategy, the Corporation has routinely acquired and repositioned properties, many of which have required significant capital improvements due to deferred maintenance, and the existence of shell space requiring build-out at the time of acquisition. In addition, some of these properties required substantial renovation to enable them to compete effectively. The Corporation takes these capital improvements and new leasing tenant inducement costs into consideration at the time of acquisition. For 1998, total non-recurring capital expenditures for the office portfolio totalled $15 million on a proportionate share basis, as compared to $8 million in 1997.

Liquidity and Capital Structure

Liquidity

The Corporation's objective is to ensure, in advance, that there are ample capital resources to allow it to execute its business plan. The Corporation's significant liquidity provides greater certainty of execution which, in turn, gives the Corporation a competitive advantage in its negotiations for acquisitions or development investments. The Corporation's willingness and ability to exercise a sell discipline, as demonstrated in the conversion of the mature retail property portfolio into cash for re-deployment into higher-yielding real estate investments, supports this objective.

At December 31, 1998, TrizecHahn had $489 million in cash and short-term investments and had $208 million available in undrawn committed credit facilities. In addition, the Corporation has a $500 million revolving credit facility, from an institutional lender, to facilitate property acquisitions and refinancings, of which $200 million remained undrawn at December 31, 1998. The completion of the acquisition of the two U.S. office properties subsequent to year end resulted in the use of approximately $120 million of cash and $140 million of the acquisition revolving credit facility.

Capital Base

TrizecHahn had an equity market capitalization of approximately $3.1 billion, based on the share price on the New York Stock Exchange ("NYSE") at December 31, 1998. This ranks TrizecHahn among the largest real estate companies in North America based on year-end market capitalization. In addition, in 1998 TrizecHahn was one of the most actively traded real estate stocks on North American exchanges. This combination of large market capitalization and trading liquidity provides the Corporation with an enhanced ability to access the public capital markets.

In September 1998, the Corporation commenced a program to acquire subordinate voting shares for cancellation under a normal course issuer bid on the NYSE. In 1998, 743,200 subordinate voting shares were purchased for cancellation at an average cost of $18.93 per share (for a total cost of $14 million).

There were approximately 14 million warrants outstanding at December 31, 1998, which are exercisable at a price of C$14.14 to acquire 0.58 subordinate voting shares of the Corporation, on or before July 26, 1999. The exercise of these warrants would raise approximately $130 million (C$198 million) and cause the issuance of approximately 8.1 million subordinate voting shares.

The Corporation intends to use its cash flow for growth through acquisitions, developments and re-developments. Therefore, it has established a dividend payout level that is consistent with a growth-oriented company in which capital is retained for re-investment in real estate opportunities. In 1998, the Corporation paid dividends aggregating 30¢ per share. Subsequent to year end, the Corporation declared a semi-annual dividend of 17.5¢ per share.

Leverage

The Corporation continues to follow a conservative financial strategy by maintaining a strong balance sheet and prudent leverage. Management is oriented towards retaining capital for re-investment in properties to expand its business, and thereby to provide greater enhancement to shareholder value, as an alternative to significantly reducing debt. Therefore, in the current environment, the Corporation has a target leverage ratio of (net debt to total book capital) between 50% and 60%.

Leverage Ratios

	1998	1997	1996
Net debt to total book capital	59%	63%	60%
Net debt to total market capitalization	49%	43%	37%

The leverage ratio is the ratio of long-term debt less cash and short-term investments ("net debt") to the sum of net debt, deferred income taxes and shareholders equity ("capital") under different assumptions. The exchangeable debentures are excluded from the calculations as they can be satisfied through the delivery of the underlying Barrick shares.

Long-Term Debt

At December 31, 1998, long-term debt was approximately $4 billion. As reflected in the Consolidated Statement of Cash Flows, the following long-term debt financing activities occurred in 1998.

Long Term Debt Analysis
($ millions)

Acquisition financing	$1,468
Property financing	356
Development financing	87
Unsecured debentures issued	189
Financing of retail partnership interests	323
Debt repaid on dispositions	(1,142)
Regular principal repayments	(40)
Debt maturities and paydowns	(285)
Net long-term debt financing activities	$ 956

During 1998, the Corporation completed financings aggregating in excess of $2.4 billion. Property-related financings of $1.8 billion were arranged primarily in connection with acquisitions. On May 14, 1998, the Corporation completed a public offering of C$275 million of 6.10% unsecured debentures due in 2000. Net proceeds of $189 million from the offering were used to facilitate the acquisition of retail partnership interests and to reduce existing indebtedness. In July 1998, the Corporation completed the permanent financing of eight of the properties from the Bell Canada portfolio by a private placement of C$500 million of three series of secured notes having a weighted average interest rate of 6.14%. These financings, and the repayment of higher-rate debt on the retail properties that were sold, helped reduce the Corporation's overall weighted average interest rate from 7.85% to 7.16%.

Composition

At December 31, 1998, collateralized rental property loans totaled $3 billion. Of these loans, approximately $2.4 billion is collateralized by properties located in the United States, $500 million in Canada and $100 million in Europe. The remaining $1 billion consists primarily of five facilities, the $168 million Senior Notes and four issues of Canadian-dollar-denominated, unsecured debentures issued in 1997 and 1998 totaling $539 million. Of the total long-term debt, $2.9 billion or 73% is denominated in U.S. dollars and the balance of approximately $1.1 billion or 27% is denominated primarily in Canadian dollars. At December 31, 1998, the weighted average number of years to maturity for the Corporation's collateralized property debt was five years.

At December 31, 1998, approximately $1.3 billion of the Corporation's long-term debt was floating-rate debt (both hedged and unhedged). Due to its active asset management and development strategy, the Corporation intentionally keeps a portion of its debt on a floating-rate basis. This gives TrizecHahn flexibility for sales, developments and refinancing without high prepayment penalties once lease-up strategies are completed. To better maintain the cost-effectiveness and flexibility of its capital plan, the Corporation continually monitors short-term and long-term interest rates, entering into long-term fixed-rate loan arrangements or interest rate swap and cap contracts, to manage the interest rate risk on its long-term debt and the impact of rising interest rates on cash flow. It is the Corporation's objective, based on the current interest rate environment as well as on its asset sale and financing plan, to maintain unhedged floating-rate debt at between 20% and 30% of total long-term debt. At December 31, 1998, approximately $900 million or 23% of the Corporation's long-term debt was on an unhedged, floating- rate basis. Based on debt levels, interest rate hedges and interest rates in effect at December 31, 1998, a change of 100 basis points in the interest rate would have an approximately $13 million annualized impact on gross interest expense, which would be partially offset by higher interest income on the Corporation's cash balances invested.

Refinancing

Financing for real estate in the first half of 1998 continued to benefit from improvement in real estate markets, renewed participation by traditional providers of real estate capital (insurance companies and pension funds), lower interest rates and narrower corporate borrowing spreads. The second half of the year saw real estate debt markets negatively impacted by the broader liquidity crisis caused by volatility in currency and equity markets, uncertainty over international events and prospects of lower economic growth. In mid-1998, the Corporation opportunistically issued C$275 million of unsecured debentures, completed the $C500 million permanent financing of the Bell Canada portfolio and established a $500 million acquisition facility. This allowed the Corporation to achieve favorable pricing in its re-deployment of retail sale proceeds as traditional competitive property buyers were cash constrained. Management believes that recent improvements in financial markets should continue to provide favorable financing opportunities in 1999, with slightly wider corporate spreads and higher long-term rates than those experienced in early 1998.

Approximately 21%, or $823 million of the Corporation's long-term debt matures in 1999. Included in this amount is $100 million drawn on the credit facility secured by the installment receivable from the sale of the unencumbered Barrick shares. This amount was repaid out of proceeds received on

February 3, 1999. Also included in 1999 maturities is $300 million drawn on an acquisition facility. This facility has two 12-month extension options at the Corporation's discretion.

Maturities in the subsequent four years amount to approximately $1.7 billion or 44% of total long-term debt, as described in Note 5 to the Consolidated Financial Statements. TrizecHahn plans to meet these maturing debt obligations through the refinancing of its debt with other indebtedness, existing cash and available credit, cash flow from operations, and sales of mature assets.

Outlook: Risks and Opportunities

Office

The performance of TrizecHahn's office portfolio is affected by the supply of, and demand for, office space. Macroeconomic conditions, such as current and expected growth in the economy, business and consumer confidence and employment levels, drive this demand. In 1998, continued broad-based improvement in the economy resulted in generally lower vacancy rates, as excess supply in the CBD office markets was gradually being depleted as a result of positive absorption. Management believes that markets are generally approaching supply and demand equilibrium and that the tightening of both debt and equity markets has dampened the prospects for speculative building of new office space. The Corporation's portfolio benefited from its position in Class A office buildings located in strong major markets throughout North America, as leases in 1998 expired at an average rate of approximately $10.25 net rent per square foot and were generally being signed at an average net rent per square foot of approximately $11.50. The average in-place rents for the properties in all regional markets are generally considered to be below current market rents as indicated in the following table.

Market vs. In-Place rental rates

At December 31, 1998

Region	Average In-place Net Rent US$ psf	Average Market Net Rent(1) US$ psf	Average Lease Term (years)
United States			
Northeastern	13	22	8
Mid-Atlantic	13	16	4
Southeastern	9	11	4
Midwestern	8	12	5
Southwestern	9	13	6
Western	12	14	4
U.S. Portfolio	10	14	5
Canada			
Eastern	7	9	11
Western	8	14	6
Canadian Portfolio	8	11	10
Office Portfolio	9	13	6

(1) Estimated current net market rent for similar quality space in the same market.

For the total TrizecHahn office portfolio, in-place rents are on average approximately 30% below market. These market conditions combined with the lease maturities in regional markets, as shown in the following table, are expected to contribute positively to cash flow in 1999 and future years.

Office Expiries	1999		2000		2001		2002		2003	
Region	000's sq.ft.	US$ psf	000's sq.ft.	US$ psf	000's sq.ft.	US$ psf	000's sq.ft.	US$ psf	000's sq.ft.	US$ psf
United States										
Northeastern	136	17	191	18	121	20	289	14	377	10
Mid-Atlantic	638	14	516	15	790	14	847	14	525	17
Southeastern	931	10	1,047	9	1,210	12	944	11	969	12
Midwestern	887	11	684	8	761	7	938	9	1,224	9
Southwestern	989	8	931	10	746	8	1,206	13	1,177	9
Western	377	11	660	14	370	16	280	14	407	17
U.S. portfolio	3,958	10	4,029	11	3,998	11	4,504	12	4,679	11
Canada										
Eastern	586	10	573	10	686	10	580	9	659	9
Western	312	9	861	6	335	9	357	9	593	9
Canadian portfolio	898	10	1,434	8	1,021	10	937	9	1,252	9
Office portfolio	4,856	10	5,463	10	5,019	11	5,441	12	5,931	11
Percentage of total occupied space	10%		11%		10%		11%		12%	

Over the next five years, scheduled lease expirations in the office portfolio average approximately 11% annually, based on occupied space.

Rental revenue will also benefit from contractual steps on existing leases in place, which amount to approximately $15 million in 1999. Aggregate contractual increases in office rents, for the five years ending December 31, 2003, will amount to $287 million on a cumulative basis. In addition, the vacant space in the office portfolio (91% occupied at December 31, 1998) represents a significant opportunity to increase cash flow from improved leasing efforts, especially in the recently acquired properties.

The Corporation's high-quality, diversified tenant and geographic asset base makes it better able to perform throughout the various phases of economic cycles and adds to the durability of future cash flow. The following table summarizes the breadth and diversity of the more than 4,000 tenants in the portfolio at December 31, 1998.

Tenant Mix by Industry Segment	% of Occupied Space
Computers/Telecommunications	13%
Legal Services	10%
Banking	10%
Oil/Gas	10%
Wholesalers/Retailers	7%
Business Services	6%
Government	5%
Engineering/Architectural Services	5%
Mining/Manufacturing/Construction	4%
Insurance	4%
Other	26%
	100%

This large tenant base and strong position in key markets allows the Corporation to take advantage of economies of scale and to drive internal growth in the areas of parking, riser management, telecommunications and antennae, specialty retail leasing, signage and branding opportunities, energy and national purchasing contracts.

European Expansion and Development

In November 1998, the Corporation announced plans to invest up to $500 million in Europe within the next two to five years (including amounts spent to date), as part of its focus on building a diversified, pan-European real estate company with a concentration on retail/entertainment centers. The Corporation believes that this market has high growth potential, and is currently being under-served relative to retail product being offered in North America. The convergence of political ideology and economic policy in Europe has created an environment with significant opportunities. The strategy is to leverage TrizecHahn's North American expertise and focus the Corporation's highly experienced management team, in combination with local joint venture partners, to create a series of retail/entertainment centers, supplemented by strategic acquisitions.

As of March 1999, the Corporation has three major active retail/entertainment developments underway. West End City Center is a 900,000 square foot retail/entertainment, office and hotel complex being developed with a partner in Budapest, Hungary, at a total cost of $200 million (TrizecHahn share $100 million). The Corporation has formed a joint venture in the Czech Republic to develop hypermarket-based retail centers in that country, the first of which, a 527,000 square foot project at a total cost of $60 million (TrizecHahn share $34 million) in Brno, the second largest city in the Czech Republic, is scheduled to open in late 1999. In Spain, the Corporation has formed a joint venture with a prominent local developer to embark on the development of retail/entertainment centers and re-development of a number of Spanish railroad stations. Bonaire Park in Valencia, Spain, a 1.4 million square foot retail and leisure park, is under construction with a total projected cost of $121 million (TrizecHahn share $30 million). In these existing and future projects in Europe, the Corporation intends to invest capital prudently given the additional political, currency exchange and economic risk considerations.

In North America, the Corporation is continuing its development program by concentrating on a niche market sector comprised of unique, destination-oriented retail/entertainment centers like Hollywood & Highland, in Los Angeles, a 640,000 square foot, $198 million complex (excluding future hotel component and net of $97 million of City financing) and Desert Passage at Aladdin, in Las Vegas, a 450,000 square foot, $260 million retail/entertainment complex (TrizecHahn share $160 million), which is part of a $1.3 billion hotel and casino re-development and expansion project. In addition, the Corporation is currently constructing the 800,000 square foot office tower, Bankers Hall II in Calgary, for a total project cost of $120 million.

At December 31, 1998, the Corporation's share of expenditures required to complete properties under development was estimated at $538 million ($422 million in North America, $116 million in Europe), for which construction financing facilities are either in the process of being, or have been, arranged.

By their very nature, existing or future development activities entail certain risks, including the following: expenditure of funds on projects that may not come to fruition; development costs of a project may exceed original estimates, possibly making the project uneconomic; occupancy rates and rents at a completed project may be less than anticipated; operating expenses of a completed development may be higher than anticipated; permits and other governmental approvals may not be obtained. Among the methods used by TrizecHahn to manage these risks and to achieve desired financial returns are: analyzing markets effectively, seeking out and working with capable and successful local partners, securing significant pre-leasing commitments from tenants, negotiating reliable construction contract pricing, and pre-arranging flexible construction financing.

Year 2000

In 1997, a task force representing critical areas of the Corporation's activities developed a plan to assess, manage and monitor TrizecHahn's exposure to the Y2K issue. In addition, TrizecHahn reviews the findings and recommendations of relevant industry associations and the requirements of regulatory authorities and has retained an outside consultant to perform an ongoing evaluation of its Y2K compliance initiative in an effort to ensure that its initiative is appropriate. TrizecHahn's Y2K plan comprises four stages: systems inventory; assessment of non-compliant systems; conversion and testing; and contingency planning. As part of its assessment process, the Corporation also contacts third-party vendors and service providers and tenants in an effort to obtain information from them regarding the status of their Y2K compliance efforts.

TrizecHahn has completed its inventory and assessment of its critical internal information technology and building operations systems. As system upgrades continue to be implemented in the ordinary course and as acquisitions continue to be made, the inventory and assessment process will continue. Critical internal communication and financial reporting systems are generally Y2K-ready due to the Corporation's routine systems upgrading program. TrizecHahn has concluded, based on vendor compliance documentation, limited internal customization of systems and the fact that many products have already been proven in the computer industry to be Y2K-ready, that wide-spread testing of its information technology systems is not warranted or cost effective. Given the critical nature of its new financial reporting and property management system, however, the Corporation will test this system despite having received vendor certification as to its Y2K readiness. In addition, to address issues that may arise when systems interface with one another, testing of internal communication network components will be performed, using a representative test simulation. Testing is scheduled to be completed by mid-1999.

Building operations can be affected by Y2K issues in terms of embedded systems (equipment controlled by microchips) such as elevators, heating and ventilation and security systems. Within the Corporation's existing operating portfolio, the Corporation attempts to obtain Y2K compliance information from vendors. Conversion of non-compliant systems or "work-around" solutions are being implemented and will continue as testing progresses. Testing and conversion of critical building systems is well advanced, particularly in the properties owned by TrizecHahn at the end of the third quarter of 1998. With respect to property acquisitions, the assessment of the Y2K status of a building is part of the due diligence customarily performed. For the properties acquired in the fourth quarter of 1998 and in January 1999, inventory and assessment is underway with conversion and testing expected to be completed by mid-1999. This timing is consistent with the schedule for the rest of the portfolio. As the Year 2000 approaches, there can be no assurance that there will be adequate time to complete conversions or work-around solutions for newly acquired buildings that have non-compliant systems. As part of its contingency planning, and coincident with the testing process, the Corporation is determining how many of its building systems can be operated manually. Manual operation would not, however, address the problem of a failure by a utility to provide service.

At this time, costs associated with testing and conversion of non-compliant information technology and building operations systems are not expected to have a material financial impact on the financial position of the Corporation.

The Corporation relies on third-party providers for key services such as electrical power, gas, water and telecommunications services. Interruption of these services due to Y2K issues could affect the Corporation's operations. The Corporation has initiated a process of gathering information as to the status of such third-party providers' compliance efforts. Based on this information, the Corporation is determining contingency requirements and whether there are practical alternatives.

The Corporation's rental revenue is derived from tenants which represent a diverse cross section of the economy and which include local, regional, national and international companies. TrizecHahn's rental stream comes from a broad base of good credit tenants under long-term leases. Consequently, the performance of the Corporation's business is not closely tied to the success of any particular tenant. This broad base inherently serves as a hedge against any short-term disruptions of business. TrizecHahn is active-

ly communicating with its tenants to encourage them to address their Y2K issues. There is no assurance, however, that their systems will be timely or uniformly converted or that they will not experience business interruptions as a result of Y2K-related problems. The Corporation believes that the individual tenant leases will protect against claims of constructive eviction or other remedies that could result in a termination of leases. It is also the Corporation's belief that most leases eliminate, limit or quantify the rights of a tenant to receive an abatement under such circumstances. Although there is always a risk of claims being brought on a non-contractual basis, it is TrizecHahn's belief that its efforts to identify and solve Y2K problems will minimize such risk. Nonetheless, failure of tenants systems or such interruptions, depending on their magnitude or duration, could have a material adverse impact on the Corporation's business and results of operations.

TrizecHahn's contingency planning process will continue throughout the balance of the year with a focus on a temporary utility failure as a possible scenario. Tenant and property considerations, business and information system continuity and life safety issues are being emphasized. Existing emergency procedures, industry standards and government directives are being reviewed with a focus on the possibility of delayed response time of essential emergency services, additional security and staffing requirements and the heightened need for effective internal and external communication.

Given interdependencies that exist with tenants, suppliers, financial service providers and other third parties, the Corporation cannot, with absolute assurance, quantify all financial and operational consequences related to the Y2K issue. Furthermore, insurance coverage to protect against losses arising from system failures directly related to date recognition is generally unavailable. While the Corporation believes its compliance initiative will be effective, if Y2K modifications and conversions are not completed in time, either by the Corporation, third-party service providers or tenants, the Y2K issue could have a material adverse impact on the operations and financial condition of the Corporation on, before or after January 1, 2000. In its ongoing efforts to address these issues, the Corporation will continue to give priority to its Y2K compliance initiative.

Overall Outlook

In 1998, as part of its create, enhance and capture philosophy, the Corporation executed several initiatives which will benefit the Corporation in 1999 and future years:

- Captured the value it created in its retail franchise through the $2.6 billion sale of the operating portfolio and the re-investment of the proceeds into office properties at higher returns.
- Strengthened its position in large, growing office markets by purchasing 70 properties for a total cost of $2.9 billion, at significant discounts to replacement cost, and with strong potential for future growth.
- Deployed key members of its management team to Europe to exploit this rapidly growing market, where the Corporation is building a pan-European operation focused on retail/entertainment centers.
- Built upon the quality, critical mass and strong market position of its office franchise generating "same-property" internal growth of 7%, with a positive uplift in rental rates upon re-leasing of space. Future results will benefit from the rollover of rents that are 30% below market and the lease-up of vacant space.

The execution of this philosophy has resulted in 11 quarters for which FFO per share growth has averaged 34% over the same quarter the previous year. In 1999, the Corporation anticipates that while the office acquisition pace will slow, it will continue driving rental rates, leasing vacant space, maximizing tenant retention and lowering up-front concessions, and it will also derive revenues from new sources as well as lowering operating expenses. This focus on internal growth will confirm and enhance the quality and durability of its underlying cash flows. The Corporation will continue being opportunistic and disciplined in increasing returns by creating, enhancing and realizing on assets, both in North America and Europe, to achieve its mandate of creating long-term shareholder value.

CONSOLIDATED BALANCE SHEETS

As at December 31 (U.S. $ millions)	Note	1998	1997
ASSETS			
Properties	2	$ 6,310.8	4,757.2
Cash and short-term investments		488.5	193.4
Other assets	3	556.3	372.4
Investment in Barrick	4	286.2	552.2
		$ 7,641.8	5,875.2
LIABILITIES			
Long-term debt	5	$ 3,987.4	3,029.4
Exchangeable debentures – carrying amount	6	590.8	564.5
– deferred amount	6	284.2	310.5
Accounts payable and accrued liabilities		364.6	279.3
		5,227.0	4,183.7
Deferred Income Taxes		315.7	38.3
SHAREHOLDERS' EQUITY	8	2,099.1	1,653.2
		$ 7,641.8	5,875.2

See accompanying notes to consolidated financial statements

On behalf of the Board:

Peter Munk,
Director

Gregory C. Wilkins,
Director

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31 (U.S. $ millions, except per share amounts)	Note	1998	1997	Pro Forma 1996	1996
				(Note 1)	
RENTAL OPERATIONS					
Rental revenue		$ 963.5	713.7	597.1	112.1
Operating expenses		(313.6)	(243.3)	(202.3)	(35.8)
Property taxes		(107.5)	(74.3)	(56.2)	(13.5)
RENTAL INCOME		542.4	396.1	338.6	62.8
General and administrative expense		(35.4)	(29.4)	(28.6)	(12.0)
Interest expense, net	5	(230.8)	(186.1)	(180.5)	(12.5)
REAL ESTATE OPERATING INCOME BEFORE THE FOLLOWING ITEMS		276.2	180.6	129.5	38.3
Depreciation expense		(73.8)	(50.1)	(39.9)	(8.0)
Exchangeable debentures interest expense, net		(23.8)	(19.9)	(28.4)	(28.4)
Gain on sale of properties, net		452.2	–	–	–
Gain on sale of Barrick shares		193.1	–	–	–
Income and other corporate taxes	7	(294.4)	(19.6)	44.5	67.5
Loss on early debt retirement and other, net	9	–	(25.1)	(69.8)	(69.8)
Share of net income of Barrick		–	–	31.4	31.4
Share of net income of Trizec		–	–	–	17.4
Exchangeable debentures revaluation	6	–	–	(35.0)	(35.0)
INCOME FROM CONTINUING OPERATIONS		529.5	65.9	32.3	13.4
DISCONTINUED OPERATIONS OF CLARK	4				
Gain on sale/(operations)		–	5.0	(7.6)	(7.6)
Income taxes		–	(23.1)	–	–
		–	(18.1)	(7.6)	(7.6)
NET INCOME		$ 529.5	47.8	24.7	5.8
INCOME PER SHARE FROM CONTINUING OPERATIONS	1				
Basic		$ 3.46	0.45	0.24	0.12
Fully diluted		$ 3.11	0.45	0.24	0.12
NET INCOME PER SHARE	1				
Basic		$ 3.46	0.32	0.18	0.05
Fully diluted		$ 3.11	0.32	0.18	0.05

See accompanying notes to consolidated financial statements

Consolidated Statements of Retained Earnings

For the years ended December 31 (U.S. $ millions)	Note	1998	1997	1996
RETAINED EARNINGS, BEGINNING OF YEAR		$ 544.5	533.1	534.6
NET INCOME		529.5	47.8	5.8
DIVIDENDS	8	(46.0)	(36.4)	(7.3)
SUBORDINATE VOTING SHARES PURCHASED AND CANCELLED	8	(8.5)	–	–
RETAINED EARNINGS, END OF YEAR		$ 1,019.5	544.5	533.1

Consolidated Statements of Cash Flow from Real Estate Operations

For the years ended December 31 (U.S. $ millions, except per share amounts)	Note	1998	1997	Pro Forma 1996	1996
				(Note 1)	
REAL ESTATE OPERATING INCOME		$ 276.2	180.6	129.5	38.3
Current taxes	7	(6.9)	(4.4)	(3.7)	(0.7)
CASH FLOW FROM REAL ESTATE OPERATIONS		$ 269.3	176.2	125.8	37.6
CASH FLOW FROM REAL ESTATE OPERATIONS PER SHARE	1				
Basic		$ 1.76	1.19	0.92	
Fully diluted		$ 1.65	1.16	0.89	

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

For the years ended December 31 (U.S. $ millions)	Note	1998	1997	Pro Forma 1996	1996
				(Note 1)	
Cash flow from (applied to)					
OPERATING ACTIVITIES					
Net income		$ 529.5	47.8	24.7	5.8
Non-cash items					
Depreciation expense		73.8	50.1	39.9	8.0
Gain on sale of properties, net		(452.2)	–	–	–
Gain on sale of Barrick shares		(193.1)	–	–	–
Deferred income taxes	7	287.5	38.3	(48.2)	(68.2)
Discontinued operations of Clark		–	(5.0)	7.6	7.6
Share of affiliates' net income (net of dividends)		–	–	(23.2)	(40.6)
Dilution gains and other, net		–	–	69.8	69.8
Exchangeable debentures revaluation		–	–	35.0	35.0
Net change in operating working capital	3	9.3	(5.9)	(17.7)	10.2
Total operating cash flows		254.8	125.3	87.9	27.6
FINANCING ACTIVITIES					
Long-term debt					
Acquisition financing		1,467.6	686.4	205.0	205.0
Development financing		87.5	24.2	99.7	5.6
Property financings		356.0	320.8	123.6	107.3
Unsecured debentures issued		188.5	395.7	–	–
Principal repayments		(324.5)	(757.5)	(339.7)	(263.4)
Financing of retail partnership interests		323.4	–	–	–
Repaid on dispositions		(1,142.1)	(36.0)	(206.9)	(147.8)
Exchangeable debentures issued	6	–	–	264.0	264.0
Issue of shares	8	8.1	293.8	12.9	12.9
Shares purchased and cancelled	8	(14.1)	–	–	–
Dividends paid		(46.0)	(36.4)	(7.3)	(7.3)
Total financing cash flows		904.4	891.0	151.3	176.3
TOTAL OPERATING AND FINANCING ACTIVITIES		1,159.2	1,016.3	239.2	203.9
INVESTING ACTIVITIES					
Properties					
Acquisitions		(2,896.2)	(1,188.2)	(333.2)	(333.2)
Development expenditures		(377.5)	(93.2)	(124.9)	(18.7)
Tenant installation costs		(100.9)	(45.6)	(41.7)	(10.0)
Capital expenditures		(26.8)	(16.2)	(15.6)	(6.2)
Acquisitions of retail partnership interests		(544.2)	–	–	–
Dispositions		2,772.9	86.1	330.0	221.7
Sale of Barrick shares	4	512.6	–	–	–
Barrick share sale installment receivable	4	(182.3)	–	–	–
Investment in Sears Tower	3	–	(70.0)	–	–
Proceeds from sale of Investment in Clark		–	115.6	–	–
Funds invested in other assets and liabilities		(21.7)	(15.6)	29.8	9.3
Acquisition of Trizec	13	–	–	–	90.6
Total investing cash flows		(864.1)	(1,227.1)	(155.6)	(46.5)
NET INCREASE (DECREASE) IN CASH AND SHORT-TERM INVESTMENTS		295.1	(210.8)	83.6	157.4
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR		193.4	404.2		246.8
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR		$ 488.5	193.4		404.2

See accompanying notes to consolidated financial statements

Notes to the Consolidated Financial Statements

For the years ended December 31, 1998, 1997 and 1996
(tabular amounts in U.S. $ millions, except per share amounts)

1. Significant Accounting Policies

The consolidated financial statements of TrizecHahn Corporation ("TrizecHahn" or "the Corporation") are prepared in accordance with generally accepted accounting principles as recommended by the Canadian Institute of Chartered Accountants ("Canadian GAAP"). These principles differ in certain respects from those generally accepted in the United States ("U.S. GAAP") and to the extent that they affect the Corporation, these differences are described in Note 14 "Differences from United States Accounting Principles."

The Corporation's accounting policies and its standards of financial disclosure conform to the recommendations of the Canadian Institute of Public Real Estate Companies ("CIPREC"). In the United States, the National Association of Real Estate Investment Trusts ("NAREIT") has adopted a measurement called Funds From Operations ("FFO") to supplement net income as a measure of operating performance. This measurement is considered to be a meaningful and useful measure of real estate operating performance. TrizecHahn's and CIPREC's presentation of cash flow from real estate operations is consistent with NAREIT's definition of FFO. FFO does not represent cash flow from operations as defined by Canadian GAAP. This measure is not necessarily indicative of cash available to fund cash needs and should not be considered as an alternative to cash flow as a measure of liquidity.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Certain comparatives have been reclassified to conform to the current year's presentation.

a. Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and of all subsidiaries of the Corporation where more than 50% of the voting shares are owned and the accounts of all incorporated and unincorporated joint ventures and partnerships to the extent of the Corporation's proportionate interest in their respective assets, liabilities, revenue, expenses and cash flow. All material intercompany transactions have been eliminated.

b. Reporting Currency and Foreign Currency Translation

The consolidated financial statements have been presented in U.S. dollars because it is the currency of the primary economic environment in which the Corporation conducts its operations. Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at the weighted average rate for the period. The Corporation's operations in Canada and Europe are of a self-sustaining nature. Cumulative gains or losses arising from the translation of the assets and liabilities of these operations are recorded as a separate component of shareholders' equity.

In these financial statements, unless otherwise indicated, all dollar amounts are expressed in United States dollars, references to "U.S.$" and "$" are to United States dollars and references to "C$" are to Canadian dollars.

c. Properties

i. Rental properties

Rental properties held as ongoing investments are recorded at the lower of cost and net recoverable amount. Net recoverable amount is the undiscounted projected future net cash flow to be generated from the property throughout its useful life, including its residual value, and is intended to determine recoverability of an investment and is not an expression of a property's fair market value. Rental properties considered for disposition in the near term are recorded at the lower of cost and net realizable value. Net realizable value is determined on the basis of amounts that would be realized if the property were offered for sale in the ordinary course of business under normal market conditions.

Depreciation of rental properties is determined using the sinking fund method under which an increasing amount consisting of a fixed annual sum together with interest compounded at the rate of 5% per annum is charged to income so as to fully depreciate the

buildings and improvements over their estimated useful lives of 30 to 50 years, subject to the terms of any respective ground leases.

Re-leasing costs and the cost of tenant improvements are deferred and amortized on a straight-line basis over the term of the respective lease. Maintenance and repair costs are expensed against operations as incurred, while significant improvements, replacements and major renovations are capitalized to rental properties. Furniture, equipment and certain improvements are depreciated on a straight-line basis over periods of up to 10 years.

ii. Properties under and held for development

Properties under development consist of rental properties under construction and are recorded at the lower of cost, including pre-development expenditures, and net recoverable amount. Properties held for development are recorded at the lower of cost and net recoverable amount. Properties developed for sale are recorded at the lower of cost and net realizable value.

d. Capitalized Costs

Consistent with U.S. GAAP, the cost of properties under development includes all expenditures incurred in connection with the activities of acquiring, developing and constructing these properties. These expenditures consist of all direct costs including initial leasing costs, interest on general and specific debt and other direct expenses considered applicable.

Revenues relating specifically to such properties are treated as a reduction of costs until such time as construction is substantially completed and the property is available for occupancy.

e. Income Recognition

i. Revenue from a rental property is recognized once the property is substantially completed and available for occupancy. Prior to this time, the property is categorized as a property under development. The Corporation has retained substantially all of the benefits and risks of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases. Rental revenue includes minimum rents, participating percentage rents and recoveries of operating expenses and property, capital and large corporation taxes.

ii. Income from the sale of properties is recorded when the collection of the proceeds of sale is reasonably assured and all other significant conditions and obligations are met.

f. Cash and Short-term Investments

Cash and short-term investments consist of liquid investments, such as time deposits, money market instruments, commercial paper, and Canadian and U.S. government securities carried at the lower of cost and quoted market value.

g. Investments in Affiliates

The Corporation accounts for investments in affiliates over which it exercises significant influence by the equity method. This method adjusts the original cost of the shares for the Corporation's share of net income or losses and changes in shareholders' equity of the affiliates, less dividends received from the affiliates.

Investments in which the Corporation does not exercise significant influence are accounted for by the cost method. Income is recognized only to the extent of dividends received.

h. Exchangeable Debentures

The carrying amount of the Corporation's exchangeable debentures is based on the market price, on the balance sheet date, of the underlying Barrick shares that would be exchanged to extinguish the debenture liability.

Where it is contemplated that delivery of the underlying Barrick shares will be made in satisfaction of the liability, hedge accounting is used whereby the difference between the carrying amount and the original issue amount of the debentures is recorded as a deferred charge until such time as there is a realization. Prior to December 31, 1996, where hedge accounting was not used, the difference between the carrying amount and the original issue amount was charged to net income in the period.

i. Income Taxes

The Corporation follows the tax deferral method of accounting for income taxes whereby earnings are charged with income taxes relating to reported earnings. Differences between such taxes and those currently payable or recoverable are reflected in deferred income taxes and arise because of differences between the time certain items of revenue and expense are reported in the consolidated financial statements and the time they are reported for income tax purposes.

j. Financial Instruments

The Corporation uses interest rate cap and swap agreements to manage risks from fluctuations in interest rates. The Corporation accounts for cap contracts as hedges and, as a result, the carrying values of the financial instruments are not adjusted to reflect their current market values. Any amounts receivable arising from interest rate cap contracts are recognized as a reduction of interest expense on an accrual basis. Premiums paid to arrange interest rate cap contracts are deferred and amortized over the term of the contracts. Under interest rate swap agreements, payments are recognized as adjustments to interest expense when incurred. The Corporation deals with high quality financial institutions as counterparties.

The estimated fair value of long-term debt is based on the values derived using market interest rates of similar instruments. In determining estimates of the fair value of financial instruments, the Corporation must make assumptions regarding current market interest rates, considering the term of the instrument and its risk. Current market interest rates are generally selected from a range of potentially acceptable rates and, accordingly, other effective rates and/or fair values are possible.

The carrying amounts of short-term investments, other assets, accounts payable and accrued liabilities approximates their fair value.

k. Per Share Calculations

Basic income from continuing operations, net income and cash flow from real estate operations per share, were calculated based on the weighted average number of shares outstanding for the year. The calculation of income from continuing operations, net income and cash flow from real estate operations per share on a fully diluted basis considered the potential exercise of outstanding share purchase options and warrants to the extent each option and warrant was dilutive. Pro forma per share amounts were calculated as if the shares and warrants issued upon the acquisition of the remaining interest in Trizec (32.9 million shares), were issued at the beginning of 1996 (see Note 13).

The following table summarizes the number of shares used in the calculation of per share amounts.

For the years ended December 31 (in millions of shares)	1998	1997	Pro Forma 1996	1996
INCOME FROM CONTINUING OPERATIONS				
Basic	153.0	147.7	136.8	109.5
Fully diluted	173.7	153.3	142.6	123.3
NET INCOME				
Basic	153.0	147.7	136.8	109.5
Fully diluted	173.7	150.0	140.5	114.9
CASH FLOW FROM REAL ESTATE OPERATIONS				
Basic	153.0	147.7	136.8	
Fully diluted	173.7	165.2	146.8	

Interest on the funds which would have been received had the share purchase options and warrants been exercised has been imputed at a rate of 5.0% per annum (1997 – 5.0%, 1996 – 5.35%).

l. Recent Canadian GAAP Pronouncements

In December 1997, the Canadian Institute of Chartered Accountants Accounting Standards Board approved section 3465 on Income Taxes which has adopted the liability approach based upon the temporary differences method. The standard is similar to that under U.S. GAAP. This standard is applicable for the Corporation's 2000 fiscal year.

m. Merger of Horsham and Trizec and Pro Forma Presentation

TrizecHahn Corporation was formed, effective October 31, 1996, as the result of a merger ("the Merger") between Horsham Corporation ("Horsham") and Trizec Corporation Ltd. (subsequently renamed TrizecHahn Holdings Ltd. hereinafter referred to as "Trizec") a North American real estate company. Prior to this date, Horsham held a 48% equity interest in Trizec. On October 31, 1996, a resolution was passed at a Special Meeting of shareholders of Trizec approving a Merger Agreement (the "Merger Agreement") with Horsham where among other things, each Trizec common share (other than those held by Horsham) were exchanged for 0.58 subordinate voting shares of Horsham. The Merger was accounted for by Horsham as an acquisition of the 52% remaining interest in Trizec (see Note 13), using the purchase method of accounting. Horsham's name was changed to TrizecHahn Corporation to reflect the fact that the Corporation is a fully-integrated, growth-oriented real estate development and operating company.

The pro forma comparative financial statements and notes are provided because prior to November 1, 1996, the Corporation's 48% investment in Trizec was accounted for using the equity method. As such, the consolidated income statement and statement of cash flows only reflect the line by line detail of Trizec for the two months ended December 31, 1996, i.e. the period of consolidation.

The pro forma comparative consolidated statements of income, cash flow from real estate operations and cash flows are presented as if the Merger had occurred at the beginning of the fiscal period presented. The pro forma comparative income statement includes the 52% previously not owned ownership interest in Trizec's results (1996 net income up to October 31, 1996 – $18.9 million), plus the initial 48% ownership interest, on a consolidated line by line basis. This allows for year-over-year comparability of TrizecHahn's real estate operations. No other adjustments were made to the underlying comparative financial statements and results. The pro forma comparative consolidated financial statements and notes presented are based upon financial statements of Trizec and Horsham to the date of the Merger and the audited consolidated financial statements of TrizecHahn for the year ended December 31, 1996.

2. Properties

	1998	1997
Rental properties		
At cost	$ 5,936.5	4,552.9
Accumulated depreciation	(124.5)	(118.1)
	5,812.0	4,434.8
Properties under and held for development	498.8	322.4
	$ 6,310.8	4,757.2

a. In addition to development, construction and direct costs, the following carrying costs have been capitalized to properties under and held for development during the period.

For the years ended December 31	1998	1997	Pro Forma 1996 (Note 1)	1996
Operating expenses	$ 1.9	0.4	0.2	–
Interest expense (Note 5)	23.7	12.6	7.8	0.2
	$ 25.6	13.0	8.0	0.2

The Corporation's share of expenditures required to complete properties under development is estimated at $538 million, for which construction financing facilities are being, or have been, arranged.

b. Future minimum rentals to be received under non-cancellable tenant leases in effect at December 31, 1998, are as follows:

Years ending December 31,	1999	$ 781.7
	2000	721.5
	2001	642.3
	2002	559.1
	2003	469.4
	Thereafter	2,466.1
		$ 5,640.1

c. Properties carried at a net book value of approximately $1,442.1 million are situated on land held under leases or agreements expiring in the years 2017 to 2150.

Minimum land rental payments for each of the next five years and subsequent are as follows:

Years ending December 31,	1999	$ 12.7
	2000	13.2
	2001	13.3
	2002	13.1
	2003	13.3
	2004 to 2150	650.7
		$ 716.3

Additional rent is payable under certain leases based on rental revenue or net cash flow from properties situated on leased land.

3. Other Assets

	1998	1997
Tenant and other receivables	$ 72.4	89.8
Investment in Sears Tower	70.0	70.0
Mortgages, notes receivable and other investments	25.0	16.9
Prepaid expenses	29.3	30.2
Deferred financing costs	57.8	44.1
Deposits, deferred charges and other	129.5	121.4
Barrick share sale installment receivable (C$264 – see Note 4a)	172.3	–
	$ 556.3	372.4

a. Investment in Sears Tower

On December 3, 1997, the Corporation purchased a subordinated mortgage and an option to purchase the Sears Tower in Chicago (the "Investment in Sears Tower") for $70 million which gives TrizecHahn effective control over all aspects of the building including property management and leasing. The Corporation's mortgage is subordinate to an existing first mortgage plus accrued interest (December 31, 1998 – approximately $751 million, 1997 – approximately $735 million), which is serviced only to the extent of available cash flow. The subordinated mortgage, which matures in July, 2010, has a principal plus accrued interest balance of approximately $311 million at December 31, 1998, (1997 – $294 million) and has participation rights on available cash flow. As excess cash flow is not currently available to service the subordinated mortgage, no interest income has been recognized for the period ended December 31, 1998, and 1997. The option to purchase the building is exercisable between January, 2003 and July, 2005 at a price of approximately $950 million plus 40% of the amount by which the appraised value of the building exceeds $1,063 million.

b. Net Change in Operating Working Capital

The net change in operating working capital includes the net change in tenant receivables, prepaid expenses, deferred charges and other assets, accounts payable and accrued liabilities that relate to operating activities.

For the years ended December 31	1998	1997	Pro Forma 1996	1996
Cash flow from (applied to)			(Note 1)	
Tenant receivables	$ 37.8	(24.9)	(21.4)	(3.2)
Prepaid expenses	(3.4)	1.1	(3.8)	(4.9)
Deferred charges and other assets	1.2	3.7	4.2	(1.7)
Accounts payable and accrued liabilities	(26.3)	14.2	3.3	20.0
Net change in operating working capital	$ 9.3	(5.9)	(17.7)	10.2

4. INVESTMENTS IN AFFILIATES

a. Investment in Barrick and sale of unencumbered shares

On February 3, 1998, the Corporation sold its 28,166,026 unencumbered shares of Barrick Gold Corporation ("Barrick"), an international gold mining company, for gross proceeds of $512.6 million. The majority of the shares (24,896,026) were sold to the public by way of an underwritten secondary offering on an installment basis, with the balance (3,270,000) sold on a fully paid basis. For the installment sales, approximately 60% of the selling price ($272 million) was received on closing with the balance of $182.3 million (C$264 million) receivable on February 3, 1999. The installment receipts were collected as scheduled.

At December 31, 1998 the Corporation's remaining investment in Barrick consisted of 30,299,558 common shares that are pledged as collateral for the full satisfaction of the exchange obligation related to exchangeable debentures (see Note 6).

For 1996 and prior years, the Corporation used the equity method of accounting for its investment in Barrick. For 1997, the Corporation adopted the cost method of accounting. Dividends received from Barrick during the current year of $5.5 million (1997 – $9.4 million), have been netted against exchangeable debentures interest expense.

b. Investment in Clark – Sale of Investment

On November 3, 1997, the Corporation, in accordance with its plan formalized during 1996, completed the sale of its investment in Clark USA, Inc. ("Clark"), an oil refining and marketing company in the United States. The disposal of this investment resulted in a pre-tax gain of $5.0 million and has been classified as "Discontinued operations of Clark". Income taxes of $23.1 million, before the utilization of tax-loss carry-forwards from continuing operations, have been recorded in connection with this sale.

The loss in the discontinued operations of Clark for 1996 of $7.6 million was comprised of equity accounting losses of $26.0 million, net of dilution gains of $18.4 million.

5. LONG-TERM DEBT

	Weighted average interest rates as at December 31, 1998	1998	Weighted average interest rates as at December 31, 1997	1997
Collateralized property loans:				
At fixed rates	7.22%	$ 2,117.1	8.17%	$ 1,690.8
At variable rates (subject to interest rate caps)	7.48%	163.3	7.67%	158.5
At variable rates	7.03%	754.4	7.36%	554.7
Other loans:				
At fixed rates	7.24%	613.0	8.16%	349.5
At variable rates (subject to interest rate caps)	7.04%	195.9	6.40%	230.7
At variable rates	6.30%	143.7	7.04%	45.2
	7.16%	$ 3,987.4	7.85%	$ 3,029.4

a. Collateralized Property Loans

As at December 31, 1998, the Corporation has fixed the interest rates on $35.2 million (1997 – $118.6 million) of the debt classified as fixed, in the above table, by way of interest rate swap contracts with a weighted average interest rate of 9.02%, and maturing between July 1999 and June 2000. The costs to unwind these interest rate swap contracts would amount to approximately $1.5 million as at December 31, 1998 (1997 – $5.7 million).

The Corporation has also entered into interest rate cap contracts on variable rate debt which limit the underlying London Interbank Offered Rate ("LIBOR") to set levels. Contracts in place at December 31, 1998 are as follows:

- contracts expiring between July 1999 and June 2001 which limit the underlying LIBOR rate on $113.3 million of U.S. dollar denominated variable rate debt to between 5.21% and 8% (7% on a weighted average basis); and
- contract expiring in February 2000 which limits the underlying LIBOR rate on $50 million U.S. dollar denominated variable rate debt to 7%. However, this contract contains a knockout clause which leaves the Corporation without interest rate protection should LIBOR rates exceed the knockout rate of 9%.

At December 31, 1998, the three month LIBOR rate was 5.07%.

b. Other Loans

Included in Other loans are the following:

- C$275 million, 6.10% unsecured debentures due September 1, 2000 (1998 – $179.6 million, 1997 – nil).
- C$250 million, 6.00% unsecured debentures due September 3, 2002 (1998 – $163.2 million, 1997 – $174.9 million).
- C$125 million, 7.45% unsecured debentures due June 1, 2004 (1998 – $81.6 million, 1997 – $87.4 million).
- $167.5 million, 10.875% Senior Notes due October 15, 2005 (1997 – $167.5 million). The Senior Notes, which are unconditionally guaranteed by Trizec, a wholly owned subsidiary of the Corporation, are redeemable at the option of the Corporation on or after October 15, 2000.
- C$175 million, 7.95% unsecured debentures due June 1, 2007 (1998 – $114.3 million, 1997 – $122.5 million).

The Corporation has entered into interest rate swap contracts on $195.9 million (C$300 million) of debt included in Other loans, effectively converting the debt from fixed rate into variable rate debt maturing in June 2004 and June 2007. In addition, the Corporation entered into interest rate cap contracts on this debt which limits the underlying Canadian Bankers' Acceptance Rate ("BA") to 6%. However, these contracts contain knockout clauses which leave the Corporation without interest rate protection should underlying BA rates exceed the knockout rate of 9%. As at December 31, 1998, the fair value of these contracts to the Corporation is estimated to be $12.5 million.

At December 31, 1998, the three month BA rate was 5.07%.

c. Principal Repayments

Principal repayments of debt are due as follows:

	U.S. dollar denominated debt	Canadian dollar denominated debt	Total debt
Years ending December 31, 1999	$ 781.1	42.3	823.4
2000	194.0	199.6	393.6
2001	612.0	49.5	661.5
2002	110.4	298.5	408.9
2003	265.0	18.4	283.4
Subsequent to 2003	968.7	447.9	1,416.6
	$ 2,931.2	1,056.2	3,987.4

Included in principal repayments for the year ending December 31, 1999 is $300 million drawn on a credit facility which matures November 9, 1999. This facility has two 12 month extension options at the Corporation's discretion. Also included in principal repayments is $100 million drawn on the credit facility secured by the installment receivable arising on the sale of the unencumbered Barrick shares. This amount was repaid out of proceeds received on February 3, 1999 (see Note 4a).

The various debt arrangements of the Corporation contain certain covenants including limitations on additional indebtedness, or distributions of dividends in respect of capital stock subject to the maintenance of certain financial ratios.

The estimated fair value of the Corporation's long-term debt approximates its carrying value as at December 31, 1998.

d. Interest Charges

Interest charges consist of:

For the years ended December 31	1998	1997	Pro Forma 1996 (Note 1)	1996
Interest cost, gross	$ (280.9)	(217.9)	(224.3)	(40.3)
Interest capitalized to properties under development	23.7	12.6	7.8	0.2
Interest expense	(257.2)	(205.3)	(216.5)	(40.1)
Interest income	26.4	19.2	36.0	27.6
Interest expense, net	$ (230.8)	(186.1)	(180.5)	(12.5)

e. Available Lines of Credit

At December 31, 1998, property collateralized credit facilities in the amount of $208 million were undrawn and available. In addition, the Corporation has arranged a $500 million credit facility from institutional lenders to facilitate property acquisitions. At December 31, 1998, $300 million was drawn on this facility.

6. Exchangeable Debentures

	1998	1997
Carrying amount:		
$600 million, $3\frac{1}{4}$% Debentures, due 2018	$ 417.9	399.2
$275 million, 3% Debentures, due 2021	172.9	165.3
	590.8	564.5
Deferred amount	284.2	310.5
	$ 875.0	875.0

a. $3\frac{1}{4}$% Exchangeable Debentures

In December 1993, the Corporation issued $600 million of $3\frac{1}{4}$% Debentures due December 10, 2018. Interest is payable semi-annually. Each $1,000 principal amount of $3\frac{1}{4}$% Debentures is exchangeable at the option of the holder for 32.4675 common shares of Barrick, without payment of accrued interest. The $3\frac{1}{4}$% Debentures are redeemable at the option of the Corporation on or after December 10, 1998 at a price equal to the principal amount plus accrued interest. Upon notice of redemption by the Corporation or within 30 days prior to maturity, the holder has the option to exchange each $1,000 principal amount for between 32.4675 and 35.7143 Barrick common shares (depending upon the current market value of Barrick shares at such time), plus accrued interest payable in cash. The $3\frac{1}{4}$% Debentures are direct unsubordinated obligations of the Corporation. As of December 31, 1998 the Corporation has placed with a trustee 21,428,580 Barrick shares as collateral for its exchange obligation. This represents the maximum number of Barrick shares that are required to be pledged as collateral.

The Corporation's obligation related to any exchange or redemption can be satisfied through delivery of the cash equivalent of the current market value of Barrick shares at such time, the Barrick shares, or any combination thereof. Satisfaction of the liability with cash would retain the potential benefit of future equity appreciation related to the Barrick shares for the period subsequent to the retirement.

Prior to December 31, 1996, the Corporation carried the $600 million of $3\frac{1}{4}$% debentures at their face amount. To create consistency on a prospective basis with the accounting treatment mandated for the $275 million of 3% debentures issued in 1996, the $600 million $3\frac{1}{4}$% debentures were retroactively marked to market. This change in accounting policy resulted in the recording of a revaluation charge of $35 million for the year ended December 31, 1996. A deferred tax recovery of $15 million was recorded related to the revaluation charge resulting in a net charge to net income for the year ended December 31, 1996 of $20 million.

The carrying amount of the Corporation's $3\frac{1}{4}$% Debentures is based on the market price, on the balance sheet date, of the underlying Barrick shares that would be exchanged to extinguish the debenture liability, and approximates their fair market value.

Effective January 1, 1997, as it is contemplated that delivery of the underlying Barrick shares will be made in satisfaction of the liability, hedge accounting has been applied, whereby the difference between the carrying amount and the original issue amount of the $3\frac{1}{4}$% Debentures is recorded as a deferred charge until such time as there is a realization.

b. 3% Exchangeable Debentures

In January 1996, the Corporation issued $275 million of 3% Debentures due January 29, 2021. The net proceeds from the issue amounted to $264.0 million. Interest is payable semi-annually. Each $1,000 principal amount of 3% Debentures is exchangeable at the option of the holder for 32.2581 common shares of Barrick, without payment of accrued interest. The 3% Debentures are redeemable at the option of the Corporation on or after January 29, 2006 at a price equal to the principal amount plus accrued interest. Upon notice of redemption by the Corporation or within 30 days prior to maturity, the holder has the option to exchange each $1,000 principal amount for 32.2581 Barrick common shares, plus accrued interest payable in cash. The 3% Debentures are direct unsubordinated obligations of the Corporation. As of December 31, 1998 the Corporation has placed with a trustee a further 8,870,978 Barrick shares (see Note 6a above) as collateral for its exchange obligation. This represents the maximum number of Barrick shares that are required to be pledged as collateral under this issue.

The Corporation's obligation related to any exchange or redemption can be satisfied through delivery of the cash equivalent of the current market value of Barrick shares at such time, the Barrick shares, or any combination thereof. Satisfaction of the liability with cash would retain the potential benefit of future equity appreciation related to the Barrick shares for the period subsequent to the retirement.

The carrying amount of the Corporation's 3% Debentures is based on the market price, on the balance sheet date, of the underlying Barrick shares that would be exchanged to extinguish the debenture liability, and approximates their fair market value. As it is contemplated that delivery of the underlying Barrick shares will be made in satisfaction of the liability, hedge accounting has been applied, whereby the difference between the carrying amount and the original issue amount of the 3% Debentures is recorded as a deferred charge until such time as there is a realization.

7. INCOME AND OTHER CORPORATE TAXES

a. The provision for income and other corporate taxes from continuing operations is as follows:

For the years ended December 31	1998	1997	Pro Forma 1996 (Note 1)	1996
Income tax:				
Current	$ (0.6)	(0.2)	(0.4)	(0.4)
Deferred – operations	(53.8)	(38.3)	(17.2)	2.8
– gain on sale of properties, net	(182.9)	–	–	–
– gain on sale of Barrick shares	(50.8)	–	–	–
– debenture revaluation (Note 6)	–	–	15.0	15.0
– valuation adjustment (Notes 9 and 13)	–	–	50.4	50.4
Other corporate tax – current	(6.3)	(4.2)	(3.3)	(0.3)
Utilization of tax-loss carry-forwards – Clark	–	23.1	–	–
Total tax (expense) recovery	$ (294.4)	(19.6)	44.5	67.5

b. The provision for income taxes on income from continuing operations differs from the provision computed at statutory rates as follows:

For the years ended December 31	1998	1997	Pro Forma 1996	1996
			(Note 1)	
Income tax (expense) recovery computed at Canadian combined federal and provincial statutory rates	$ (367.7)	(37.9)	5.4	24.0
Foreign operations taxed at lower rate	39.3	6.4	(3.4)	(6.6)
Permanent differences on sale of investment	(13.7)	–	–	–
Losses not tax effected	(13.9)	(9.3)	–	–
Utilization of tax-loss carry-forwards	66.5	–	19.4	18.2
Tax on large corporations	(2.9)	(2.1)	(2.3)	(0.2)
State and other capital taxes	(3.4)	(2.1)	(1.0)	(0.1)
Share of income of affiliates and dilution gains	–	–	31.1	38.8
Utilization of tax-loss carry-forwards – Clark	–	23.1	–	–
Other	1.4	2.3	(4.7)	(6.6)
Total tax (expense) recovery	$ (294.4)	(19.6)	44.5	67.5

c. At December 31, 1998 the Corporation had tax-loss carry-forwards for Canadian income tax purposes available to reduce future Canadian taxable income, the potential benefits of which have not been recognized in the accounts. These tax-loss carry-forwards expire as follows:

Years ending December 31, 1999	$ –
2000	1.3
2001	1.9
2002	37.7
2003	–
2004	13.1
2005	2.3
	$ 56.3

There are Canadian income tax deductions in the amount of approximately $111 million available for utilization in future years. In addition, there are also capital losses available for income tax purposes amounting to approximately $22 million that can be carried forward indefinitely to apply against future capital gains. These amounts have not been recognized in the accounts.

In the United States, at December 31, 1998, the Corporation had approximately $238 million in net operating losses available for utilization in future years, for which the potential benefits have been recorded in the balance sheet as a reduction of deferred income tax liabilities. These losses are available to be utilized against cash taxes otherwise payable in future years.

8. SHAREHOLDERS' EQUITY

	1998	1997
Share capital	$ 1,166.6	1,164.1
Foreign currency translation adjustment	(87.0)	(55.4)
Retained earnings	1,019.5	544.5
	$ 2,099.1	1,653.2

a. Share Capital

At December 31, 1998 the authorized share capital of the Corporation consisted of:

- an unlimited number of preferred shares, issuable in one or more series;
- an unlimited number of subordinate voting shares without par value, carrying one vote per share; and
- 7,522,283 multiple voting shares without par value, carrying 50 votes per share. Pursuant to a trust agreement the holder of all of the Multiple voting shares has agreed not to vote more than that number of multiple voting shares carrying votes in the aggregate that represent a simple majority of all votes entitled to be cast on a matter by all holders of voting securities of TrizecHahn in the aggregate.

Warrants outstanding at December 31, 1998, of 13,976,997 are exercisable at a price of C$14.14 to acquire 0.58 subordinate voting shares of the Corporation, on or before July 26, 1999.

b. Issued and Outstanding Share Capital

The number of shares and warrants issued and outstanding (in millions) was as follows:

	Voting Shares				
	Subordinate	Multiple	Total	Warrants	Amount
DECEMBER 31, 1995	95.5	7.5	103.0	–	$ 345.2
Issued during 1996					
– on exercise of stock options	1.4	–	1.4	–	12.9
– in exchange for Trizec shares (Note 13)	32.9	–	32.9	14.0	512.2
DECEMBER 31, 1996	129.8	7.5	137.3	14.0	870.3
Issued during 1997					
– on exercise of stock options	1.4	–	1.4	–	15.4
– issue of shares for cash	8.6	–	8.6	–	163.7
– in exchange for Advanta properties	5.5	–	5.5	–	114.7
DECEMBER 31, 1997	145.3	7.5	152.8	14.0	1,164.1
Issued (cancelled) during 1998					
– on exercise of stock options	0.6	–	0.6	–	8.1
– shares purchased for cancellation	(0.7)	–	(0.7)	–	(5.6)
DECEMBER 31, 1998	145.2	7.5	152.7	14.0	$ 1,166.6

On April 21, 1997, the Corporation acquired a number of real estate development projects in the United Kingdom and Germany from Advanta Management AG, a third party. The Corporation paid for these projects through the issuance of approximately 5.5 million subordinate voting shares of the Corporation and the assumption of certain development liabilities and construction financing. The acquisition was recorded at $153.0 million with a value ascribed to these shares of $114.7 million.

On April 30, 1997, the Corporation issued 8.6 million subordinate voting shares at a price of U.S. $20 per share representing gross proceeds to the Corporation of $172.5 million and net proceeds of $163.7 million.

In September 1998, the Corporation commenced a program to acquire subordinate voting shares for cancellation under a normal course issuer bid. During the year ended December 31, 1998, 0.7 million subordinate voting shares were purchased for cancellation at an average cost of $18.93 per share ($14.1 million). The excess of the purchase cost over the average paid-in amount was $11.43 per share ($8.5 million) and was charged to retained earnings.

c. Share Purchase Options

The Corporation has a stock option plan in which options may be granted to directors, officers and key employees to purchase shares of the Corporation at prices in Canadian dollars which are not below the market price of the shares at the time of the granting of the options. There are stock options outstanding, expiring at various dates to December, 2005 with a weighted average number of years remaining at December 31, 1998 of 4.3 years. Changes in the granted and outstanding share options were as follows:

(millions of options)	1998	1997	1996
OUTSTANDING AT BEGINNING OF YEAR	12.8	9.6	5.8
Granted at a weighted average price of C$31.43 per share (1997 – C$33.19, 1996 – C$28.85)	2.0	4.7	3.1
Assumed as a result of Merger (see below)	–	–	2.2
Cancelled	(0.3)	(0.1)	(0.1)
Exercised at a weighted average price of C$18.05 per share (1997 – C$15.30, 1996 – C$12.47)	(0.6)	(1.4)	(1.4)
OUTSTANDING AT END OF YEAR – WEIGHTED AVERAGE PRICE OF C$26.98 (1997 – C$25.92; 1996 – C$20.66)	13.9	12.8	9.6
OUTSTANDING AT END OF YEAR CONSISTS OF:			
Price range C$9.15 – C$11.13; weighted average (1996 – C$9.66)	–	–	0.4
Price range C$15.00 – C$22.00; weighted average C$17.01 (1997 – C$17.12, 1996 – C$17.26)	4.3	5.0	6.1
Price range C$28.85 – C$35.80, weighted average C$31.43 (1997 – C$31.48, 1996 – C$28.85)	9.6	7.8	3.1
	13.9	12.8	9.6
EXERCISABLE AT END OF YEAR CONSISTS OF:			
Price range C$9.15 – C$11.13; weighted average (1996 – C$9.66)	–	–	0.4
Price range C$15.00 – C$22.00; weighted average C$16.95 (1997 – C$16.90, 1996 – C$16.77)	4.1	4.0	3.8
Price range C$28.85 – C$35.80; weighted average C$30.68 (1997 – C$28.85)	2.7	0.7	–
	6.8	4.7	4.2

In 1996, as a result of the Merger, the Corporation assumed Trizec share purchase options which previously entitled the holders, to purchase up to 3,767,500 Trizec common shares at an exercise price of C$10.00 per share. Each Trizec option is exercisable for 0.58 of a subordinate voting share of the Corporation (in total 2,185,150), at an effective exercise price of C$17.24.

d. Dividends and Dividend Restrictions

In 1998, the Corporation declared and paid dividends in United States dollars of $0.30 per share (1997 – $0.25 per share, 1996 – $0.07 per share). The various debt arrangements of Trizec, a direct wholly-owned subsidiary of the Corporation, contain certain covenants including limitations on payment of dividends.

e. Foreign Currency Translation Adjustment

	1998	1997	1996
Beginning of year	$ (55.4)	(34.8)	(27.5)
Changes in exchange rate on net investment	(39.2)	(20.8)	(6.7)
Exchange rate changes on current period transactions	(0.9)	0.2	(1.9)
Recognized – Barrick investment (see below)	8.5	–	1.3
End of year	$ (87.0)	(55.4)	(34.8)

The balance in the foreign currency translation adjustment account includes historic amounts related to the Corporation's translation of its Barrick investment during prior periods, which at December 31, 1998 amounted to $9.2 million (1997 – $17.7 million). Portions of this amount are recognized as an expense when there is a reduction in the Corporation's net investment in Barrick.

9. Loss on Early Debt Retirement and Other, Net

For the years ended December 31	1998	1997	Pro Forma 1996 (Note 1)	1996
Loss on early debt retirement	$ –	(25.1)	–	–
Dilution gain – Barrick	–	–	38.9	38.9
Valuation adjustment (Note 13)	–	–	(106.2)	(106.2)
Other	–	–	(2.5)	(2.5)
	$ –	(25.1)	(69.8)	(69.8)

On June 30, 1997 the Corporation redeemed, pursuant to their terms, $82.5 million principal amount of 10.875% Senior Notes due October 2005. On August 5, 1997 the Corporation retired the indebtedness related to the Place Ville Marie office complex in Montreal, Quebec. As a consequence of these early retirements, the Corporation paid redemption premiums resulting in a charge to income of $25.1 million.

The 1996 dilution gain resulted from the issuance of common shares by Barrick for amounts in excess of the Corporation's carrying value.

In 1996, as a consequence of having acquired the remaining 52% interest in Trizec, a reduction in property values of $106.2 million was recorded related to 48% of the Corporation's initial investment in properties which were being considered for disposition in the near term. A deferred tax recovery of $50.4 million was recorded related to this valuation adjustment (see Note 7), resulting in a net charge to income of $55.8 million.

10. SEGMENTED INFORMATION

The Corporation is a fully integrated real estate operating and development company, primarily focused in the United States and Canada. Its activities include the acquisition, development and operation of rental properties, consisting of office properties and mixed-use centers.

The following presents information by reportable segment for the years ended December 31, 1998 and 1997 and on a pro forma basis for 1996 (see Notes 1 and 13). Separate management groups head the combined United States and Canada office segment, and the retail segment. In 1998, the Corporation sold its retail operating properties, expanding its focus to the development of retail and entertainment oriented properties in Europe. European operations are directed by a separate management group. The accounting policies of the segments are the same as those described for the Corporation in Note 1 – Significant Accounting Policies. The Corporation primarily evaluates operating performance based on rental income. All key financing, investing and capital allocation decisions are corporately managed.

	United States						Canada			Total		
	Office			Retail			Office					
For the years ended December 31	1998	1997	Pro Forma 1996	1998	1997	Pro Forma 1996	1998	1997	Pro Forma 1996	1998	1997	Pro Forma 1996
			(Note 1)			*(Note 1)*			*(Note 1)*			*(Note 1)*
RENTAL OPERATIONS												
Revenue	$ 533.8	285.0	171.4	170.7	231.1	243.0	259.0	197.6	182.7	963.5	713.7	597.1
Operating costs	(234.0)	(135.9)	(84.0)	(62.8)	(88.6)	(93.0)	(124.3)	(93.1)	(81.5)	(421.1)	(317.6)	(258.5)
Rental income	$ 299.8	149.1	87.4	107.9	142.5	150.0	134.7	104.5	101.2	542.4	396.1	338.6
General and administrative expense										(35.4)	(29.4)	(28.6)
Interest expense, net										(230.8)	(186.1)	(180.5)
REAL ESTATE OPERATING INCOME										276.2	180.6	129.5
Current taxes										(6.9)	(4.4)	(3.7)
CASH FLOW FROM REAL ESTATE OPERATIONS										$ 269.3	176.2	125.8

A reconciliation of Real estate operating income, to Net income, is not considered necessary as all other line items on the face of the income statement are not allocated by the Corporation to defined segments.

	United States				Europe		Canada		Total	
	Office		Retail		Retail and Mixed-Use		Office and Corporate			
As at and for the years ended December 31	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997
ASSETS										
Properties	$ 4,396.5	1,965.7	289.2	1,655.0	336.3	222.1	1,288.8	914.4	6,310.8	4,757.2
Other assets	185.6	153.8	29.5	39.0	27.5	17.8	313.7	161.8	556.3	372.4
	$ 4,582.1	2,119.5	318.7	1,694.0	363.8	239.9	1,602.5	1,076.2	6,867.1	5,129.6
Cash and short-term investments									488.5	193.4
Investment in Barrick									286.2	552.2
TOTAL ASSETS									$ 7,641.8	5,875.2
NET PROPERTY INVESTING ACTIVITIES	$ 2,446.9	953.6	(1,880.9)	56.7	123.2	181.5	483.5	65.3	1,172.7	1,257.1

11. Joint Ventures

In its real estate operations, the Corporation participates in incorporated and unincorporated joint ventures and partnerships with other venturers in various properties which are accounted for using the proportionate consolidation method. The consolidated financial statements include the Corporation's proportionate share of assets, liabilities, revenue, expenses and cash flow. During 1998 the Corporation sold several retail properties which were operated as joint ventures.

a. The following amounts represent the total assets and liabilities of joint ventures in which the Corporation participates and its proportionate share of the assets and liabilities.

	Total		Proportionate Share	
As at December 31	1998	1997	1998	1997
Assets	$ 1,620.8	3,616.7	827.1	1,850.1
Liabilities	773.2	1,726.4	385.7	903.1

b. The following summary presents the Corporation's proportionate share of revenue, expenses and cash flows of joint ventures in which the Corporation participates.

For the years ended December 31	1998	1997	Pro Forma 1996	1996
			(Note 1)	
Revenue	$ 172.6	221.9	187.3	31.2
Expenses	(132.0)	(161.8)	(144.0)	(24.0)
Cash flow from (applied to)				
Operating activities	45.6	71.4	59.0	9.8
Financing activities	37.0	269.2	(37.4)	(18.9)
Investing activities	(110.1)	(435.1)	29.8	35.5

c. The Corporation is contingently liable for obligations of its partners in such joint ventures. In each case, all of the assets of the joint venture are available for the purpose of satisfying such obligations. At December 31, 1998, the Corporation has guaranteed or is otherwise liable for approximately $5 million (December 31, 1997 – $49 million) of its partners' share of recourse property debt.

12. Contingencies

a. In a Complaint filed May 5, 1997, AOC Limited Partnership ("AOC") and others commenced an action in the Circuit Court of Cook County, Illinois against the Corporation and Clark. AOC, the Corporation and Clark are all parties to a stock purchase and redemption agreement dated as of December 31, 1992 (the "Purchase Agreement") pursuant to which AOC sold its 40% minority interest in Clark. The Purchase Agreement provided that, in certain circumstances, AOC could receive contingent payments of up to $24 million, plus interest at a rate of 9%. Such contingent payments were to be paid as to 89% by Clark and as to 11% by the Corporation. The Corporation indemnified Clark for any contingent payment made by it in excess of $7 million. In the Complaint, the plaintiffs allege that they are entitled to receive a payment under the Purchase Agreement of in excess of $21 million plus interest as a result of an issuance of shares by Clark in February, 1995. Discovery in the action has now been substantially completed, and it is anticipated that a trial will be scheduled for sometime in

1999. While the ultimate outcome of any action is uncertain, the Corporation believes that the plaintiffs are not entitled to any payment. The Corporation has been advised by its counsel that it has a good defense to this action and the Corporation intends to continue contesting the allegations vigorously.

b. On August 4, 1998, a third party general contractor served a notice of arbitration to a wholly-owned subsidiary of the Corporation in connection with the development of Number One Poultry in London, England. The Corporation's ownership interest in Number One Poultry was acquired in 1997 from Advanta Management AG, a third party. The dispute with the third party general contractor relates to a £32.4 million ($53.6 million) fixed price construction contract for Number One Poultry. In its claim for approximately £22.3 million ($36.9 million) plus interest, in addition to the fixed price amount, the third party general contractor lists disputes relating to cost overruns, changes in scope of the contract, various change orders and other matters. The Corporation will dispute these matters and expects to counter claim for liquidated damages due to the delayed construction completion date. At this early stage in the arbitration process the ultimate outcome is not determinable. If the contractor is successful in recovering any amount as a result of this action, this amount would be recorded as an additional capital cost of the building, and assessed for recoverability over the estimated useful life of the property at that time.

c. The Corporation is contingently liable under guarantees that are issued in the normal course of business, and with respect to other litigation and claims that arise from time to time. While the final outcome with respect to claims and litigation pending at December 31, 1998, cannot be predicted with certainty, in the opinion of management, any liability which may arise from such contingencies would not have a material adverse effect on the consolidated financial position or results of operations of the Corporation.

d. The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

13. ACQUISITION OF TRIZEC

a. Initial Investment

On July 25, 1994, Horsham purchased 46,508,690 common shares, 5,416,775 rights to purchase common shares and 6,066,684 Class B warrants to purchase common shares of Trizec, for 19,399 shares of Horsham and cash of approximately $428.6 million, for a total acquisition cost of $435.5 million. On October 24, 1994, Horsham paid an additional $48.1 million in connection with the exercise of the acquired rights. Prior to the acquisition of the remaining outstanding shares in Trizec, that took place on October 31, 1996, Horsham held 51,925,465 or approximately 48% of the total common shares outstanding and for financial statement purposes accounted for its investment in Trizec using the equity method of accounting. On October 31, 1996 Horsham's initial investment amounted to $526.5 million.

b. Acquisition of Remaining Interest

Pursuant to a Merger Agreement effective October 31, 1996 ("date of acquisition"), Horsham acquired all of the remaining outstanding Common and Special shares of Trizec by agreeing to exchange each Trizec common share (other than those already held by Horsham) for 0.58 subordinate voting shares of Horsham. The number of shares of TrizecHahn issued under this agreement was 32,862,689 subordinate voting shares with a fair value of $491.6 million. In addition to the exchange of shares, certain Class A Warrants ("the Warrants") to purchase common shares of Trizec were assumed by the Corporation as part of the Merger

Agreement. These Warrants are exerciseable at a price of C$14.14 per warrant and allow for the purchase of 0.58 subordinate share of TrizecHahn, for each warrant, on or before July 26, 1999. The number of Warrants assumed by the Corporation amounted to 13,999,860 with a fair value of $20.6 million. The value of these securities was determined based upon the market values of Horsham subordinate voting shares and Trizec Warrants during a reasonable period surrounding the date of acquisition.

The acquisition of the remaining outstanding shares of Trizec was accounted for using the purchase method of accounting. The fair value of the assets and liabilities acquired on October 31, 1996 based on the consideration paid for the remaining 52% interest, was as follows:

	Trizec net assets at book value	Remaining 52% interest acquired at fair value
ASSETS AND LIABILITIES		
Properties	$ 3,530.3	1,798.0
Cash	97.6	50.8
Other assets	200.8	95.0
Long-term debt	(2,500.6)	(1,309.3)
Other liabilities	(177.7)	(92.3)
Deferred income taxes	(44.2)	(23.0)
NET ASSETS	1,106.2	519.2
Initial investment	(526.5)	
Acquisition cost of remaining interest	(519.2)	
EXCESS OF BOOK VALUE OVER CONSIDERATION PAID	$ 60.5	
CONSIDERATION PAID:		
Subordinate voting shares issued	$ (491.6)	
Warrants assumed	(20.6)	
Costs of the acquisition	(7.0)	
TOTAL CONSIDERATION	(519.2)	
Cash acquired	97.6	
Shares issued and warrants assumed	512.2	
CASH PROVIDED BY THE ACQUISITION	$ 90.6	

The acquisition of the remaining 52% interest in Trizec for consideration less than book value resulted in a $60.5 million net reduction to the carrying values of the assets and liabilities acquired. Subsequent to the acquisition a corresponding charge to net income of $55.8 million (net of a $50.4 million deferred tax recovery) was recorded. This represents a reduction of the 48% interest in property carrying values, established at the time of the Corporation's initial investment in these properties (see Note 9).

14. Differences from United States Accounting Principles

Canadian GAAP varies in certain significant respects from the principles and practices generally accepted in the United States as described below. The approximate effect of these principal differences on the Corporation's balance sheets, statements of income, and statements of cash flows are quantified below and described in the accompanying notes.

I. INCREMENTAL IMPACT ON NET INCOME

For the years ended December 31	Note	1998	1997	Pro Forma 1996 (Note 1)	1996
INCOME FROM CONTINUING OPERATIONS AS REPORTED		$ 529.5	65.9	32.3	13.4
Building depreciation	a	(45.2)	(47.7)	(36.8)	(20.8)
Gain on sale of properties, net	b	57.4	–	–	–
Revenue recognition	c	14.3	4.5	3.7	2.1
Gain on sale of Barrick shares	d	(24.5)	–	–	–
Loss on early debt retirement	e	–	25.1	–	–
Deferred income taxes	f	147.6	60.0	(8.7)	(22.3)
INCOME (LOSS) FROM CONTINUING OPERATIONS UNDER U.S. GAAP		679.1	107.8	(9.5)	(27.6)
LOSS FROM DISCONTINUED OPERATIONS AS REPORTED		–	(18.1)	(7.6)	(7.6)
Deferred income taxes		–	23.1	8.7	8.7
INCOME FROM DISCONTINUED OPERATIONS UNDER U.S. GAAP		–	5.0	1.1	1.1
INCOME (LOSS) UNDER U.S. GAAP BEFORE EXTRAORDINARY ITEM AND EFFECT OF CHANGE IN ACCOUNTING POLICY		679.1	112.8	(8.4)	(26.5)
Loss on early debt retirement	e	–	(25.1)	–	–
INCOME (LOSS) UNDER U.S. GAAP BEFORE EFFECT OF CHANGE IN ACCOUNTING POLICY		679.1	87.7	(8.4)	(26.5)
Effect of change in accounting policy (Note 6)	g	–	–	20.0	20.0
NET INCOME (LOSS) UNDER U.S. GAAP		$ 679.1	87.7	11.6	(6.5)
PER SHARE AMOUNTS	i				
Income (loss) per share from continuing operations					
– Basic		$ 4.44	0.73	(0.07)	(0.25)
– Fully diluted		$ 4.33	0.71	(0.07)	(0.24)
Income (loss) per share before extraordinary item					
– Basic		$ 4.44	0.76	0.08	(0.06)
– Fully diluted		$ 4.33	0.74	0.08	(0.06)
Net income (loss) per share					
– Basic		$ 4.44	0.59	0.08	(0.06)
– Fully diluted		$ 4.33	0.57	0.08	(0.06)
Weighted average number of shares outstanding during the year (in millions)					
– Basic		153.0	147.7	136.8	109.5
– Fully diluted		157.0	152.6	140.6	113.3

The principal differences itemized above are all non-cash in nature and do not impact the presentation of cash flow from real estate operations.

II. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. GAAP requires that a Statement of Comprehensive Income be presented reporting the non-shareholder related transactions that have affected shareholders' equity during the period.

For the years ended December 31	Note	1998	1997	Pro Forma 1996	1996
				(Note 1)	
NET INCOME (LOSS) UNDER U.S. GAAP		$ 679.1	87.7	11.6	(6.5)
Other comprehensive income items, before tax					
Foreign currency translation adjustment (see Note 8e)		(40.1)	(20.6)	(8.6)	(8.6)
Foreign currency translation recognized in net income (see Note 8e)		8.5	–	0.7	0.7
Unrealized gains (loss) on investment in Barrick	d	45.2	(588.8)	1,075.0	1,075.0
Realized gains included in net income on investment in Barrick	d	(253.0)	–	–	–
Comprehensive income before tax		439.7	(521.7)	1,078.7	1,060.6
Tax effect on other comprehensive income items		68.5	196.8	(358.5)	(358.5)
COMPREHENSIVE INCOME		$ 508.2	(324.9)	720.2	702.1

III. CONSOLIDATED BALANCE SHEETS

The incorporation of the differences in accounting principles into the consolidated balance sheets as at December 31, 1998 and December 31, 1997 results in the following balance sheets presented under U.S. GAAP.

	1998	1997
Properties	$ 6,226.1	4,696.4
Cash and cash equivalents	488.5	193.4
Other assets	615.7	372.4
Investment in Barrick	590.8	1,089.2
	$ 7,921.1	6,351.4
Long-term debt	$ 3,987.4	3,029.4
Exchangeable debentures	875.0	875.0
Accounts payable and accrued liabilities	364.6	279.3
Deferred income taxes	402.4	332.2
Shareholders' equity	2,291.7	1,835.5
	$ 7,921.1	6,351.4

The following is a reconciliation of Shareholders' Equity incorporating the differences between Canadian and U.S. GAAP.

	Note	1998	1997
Shareholders' equity under Canadian GAAP		$ 2,099.1	1,653.2
Cumulative adjustments to net income		7.4	(142.2)
Investment in Barrick – cumulative effect on comprehensive income	d	185.2	324.5
Shareholders' equity under U.S. GAAP		$ 2,291.7	1,835.5

IV. CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. GAAP defines cash and cash equivalents to include cash and short-term, highly liquid investments with original maturities of three months or less; whereas under Canadian GAAP, the Corporation defines cash to include cash and short-term investments. In 1998 and 1997 there was no difference in the definition of cash (1996 – $59.7 million).

The adjustment to financing and investing activities in the current period relates to the assumption of debt for the acquisition of property. In 1997 this adjustment related to the issuance of shares and the assumption of debt for the acquisition of property (see Note 8). U.S. GAAP requires that non-cash transactions be excluded from investing and financing activities.

For the years ended December 31	1998	1997	Pro Forma 1996	1996
Cash flow from (applied to)			*(Note 1)*	
Operating activities	$ 254.8	125.3	87.9	27.6
Financing activities	521.7	738.0	151.3	176.3
Investing activities	(481.4)	(1,014.4)	(126.5)	(91.2)
Net Increase (Decrease) in Cash and Cash Equivalents	295.1	(151.1)	112.7	112.7
Cash and Cash Equivalents, beginning of year	193.4	344.5		231.8
Cash and Cash Equivalents, end of year	$ 488.5	193.4		344.5

Interest paid during the periods approximates the interest cost, gross (see Note 5). Cash taxes paid during the period approximate current taxes (see Note 7).

V. NOTES TO THE DIFFERENCES FROM U.S. ACCOUNTING PRINCIPLES

a. Building depreciation – Rental properties are depreciated using the sinking fund method whereas under U.S. GAAP, rental properties are depreciated on a straight-line basis. In recomputing depreciation on a straight-line basis, an estimated salvage value of 5% of building cost is used and a "half year" convention is applied to additions.

b. Gain on sale of properties, net – The additional accumulated depreciation related to the rental properties disposed of during the year reduced their net book value under U.S. GAAP by $57.4 million resulting in an increase in the gain on disposition of rental properties.

c. Revenue recognition – Rental revenue from an operating lease is recognized as income over the term of the lease as it becomes due. Under U.S. GAAP the straight-line method is used based on the known amount of cash to be received over the term of the lease. The difference between the amount recorded under the straight-line method and the rent received or due is recorded in "Other Assets," net of allowance for valuation.

Lease accounting difference

SFAS 115

d. Investment in Barrick – For U.S. GAAP purposes, the investment in Barrick which effective December 31, 1996 was accounted for on the cost basis, is considered an investment "available for sale" and is required to be carried at market value. The quoted market value for the remaining investment was approximately $591 million at December 31, 1998 (1997 – $1.1 billion, 1996 – $1.7 billion), resulting in a cumulative increase to shareholders' equity of $185.2 million (1997 – $324.5 million, 1996 – $716.5 million), net of a deferred tax liability of $93.2 million (1997 – $161.7 million, 1996 – $358.5 million).

The U.S. GAAP book value of the Barrick shares includes a 1994 dilution gain based on the U.S. GAAP method of valuing shares issued as consideration. The effect of this difference is to reduce the gain on sale of Barrick shares by $24.5 million.

Changes in quoted market value of an available for sale investment are reflected in comprehensive income. When a realization takes place the gain or loss is removed from comprehensive income and recorded in net income.

e. Loss on early debt retirement – Under U.S. GAAP, prepayment premiums for the early retirement of debt are considered extraordinary items. Under Canadian GAAP, such items are included in income from continuing operations.

f. Deferred income taxes – Under Canadian GAAP, the deferral method of accounting for income taxes is followed. U.S. GAAP requires the liability method of accounting for income taxes. Companies in the U.S. which allocate fair value to their assets and liabilities after a purchase are required to identify and record separately the deferred taxes relating to differences between the accounting and the tax bases of assets and liabilities. In Canada such differences are taken into account in determining values.

During the period, the Corporation continued to develop and proceeded with certain tax planning strategies that make it more likely than not that the Corporation will be able to realize its deferred tax assets.

In 1997, under Canadian GAAP the Corporation included $23.1 million related to the utilization of the benefit of tax losses in continuing operations. Under U.S. GAAP this amount is included in income from discontinued operations. In addition, the Corporation executed tax restructurings which resulted in a reduction of the deferred tax liability, related to its investment in Barrick, in the amount of $71.4 million. This reduction in the deferred tax liability was recognized in income in 1997 for U.S. GAAP and is recognized as part of the gain on sale of the unencumbered investment in Barrick in 1998 under Canadian GAAP.

The deferred tax assets (liabilities) of the Corporation under U.S. GAAP are as follows:

	1998	1997
CANADA		
Operating and capital losses	$ 32.5	83.1
Investments, properties and related assets	(150.7)	(226.1)
	(118.2)	(143.0)
Less: valuation allowance	–	127.0
	(118.2)	(270.0)
UNITED STATES		
Operating losses	91.2	126.5
Properties and related assets	(375.4)	(188.7)
	(284.2)	(62.2)
	$ (402.4)	(332.2)

g. Change in accounting policy – Under U.S. GAAP, the cumulative effect of the change in method of accounting for the 3 1/4% Exchangeable Debentures (see Note 6), would be charged to 1996 net income. For Canadian GAAP, the change in method has been applied retroactively, resulting in a restatement of prior year amounts.

h. Proportionate consolidation – The accounts of all incorporated and unincorporated joint ventures and partnerships are proportionately consolidated according to the Corporation's ownership interest. Under U.S. GAAP, proportionate consolidation is not permitted for joint ventures and the cost, equity or full consolidation methods of accounting must be followed, as appropriate. As permitted by the United States Securities and Exchange Commission, the effects of this difference in accounting principles is not reflected above.

i. Per share amounts – Under U.S. GAAP fully diluted earnings per share is calculated using the treasury stock method to determine if the outstanding stock options and warrants are dilutive. Canadian GAAP uses an imputed earnings approach to determine dilution.

The Corporation adopted this standard for 1998 and 1997 and is required to apply this standard retrospectively for 1996 which results in the restatement of earnings per share on a basic and fully diluted basis for 1996. As reported in 1996, loss from continuing operations was ($0.24) per share and net loss was ($0.06) per share on a primary and fully diluted basis. 1996 pro forma loss from continuing operations was ($0.07) per share and net income was $0.08 per share on a primary and fully diluted basis.

j. Accounting for stock options (see Note 8) –
The Corporation accounts for its stock compensation using the intrinsic value method. Effective in 1996, U.S. GAAP required companies that follow this method to disclose the cost of stock compensation awards at their fair value, at the date the award is granted. The weighted average fair value of the options issued by the Corporation during 1998 is $5.73 per option (1997 – $7.62 per option, 1996 – $5.10 per option) based on a Black-Scholes model using the following assumptions: a 4 year expected term; a 25% to 27% expected volatility (1997 – 28% to 37%, 1996 – 19% to 22%); an expected dividend consistent with the current year actual dividend per share; and, an expected interest rate of 4.2% to 5.7% (1997 – 5.1% to 5.9%, 1996 – 5.1% to 8.2%). Under U.S. GAAP, the pro forma cost of stock option compensation for the period ending December 31, 1998 would be $14.7 million (1997 – $8.6 million, 1996 – $3.6 million). This would result in a net income of $664.4 million or a net income of $4.34 per share (1997 – net income $79.1 million or a net income of $0.54 per share, December 31, 1996 – net loss of $10.1 million or a net loss of $0.09 per share). This disclosure of the effect on net income of the fair market value of stock options is subject to transitional rules that reduce the relationship between historical and future results.

k. Recent accounting pronouncements – In June 1998, The Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 131 "Disclosures about Segments of an Enterprise and Related Information." The Corporation has adopted this standard for its 1998 fiscal year (see Note 10).

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5 "Reporting on the Cost of Start-up Activities" effective for fiscal periods beginning after December 15, 1998. This statement is applicable for the Corporation's 1999 fiscal year, and currently its impact, if any, has not been determined.

In June 1998, FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" effective for fiscal periods beginning after June 15, 1999. This standard is applicable for the Corporation's 1999 fiscal year and currently its impact, if any, has not been determined.

Management's Responsibility for Financial Information

The Corporation's consolidated financial statements and all of the data included in this annual report have been prepared by and are the responsibility of the Board of Directors and management of the Corporation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgments based on currently available information.

The Corporation has developed and maintains a system of internal accounting controls in order to assure, on a reasonable and cost effective basis, the reliability of its financial information. The system is monitored by the Corporation's internal auditors and reviewed by the Audit Committee of the Board of Directors. The Corporation's internal auditors evaluate and report on the effectiveness of the control system both to management and the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, Chartered Accountants. Their report outlines the scope of their examination and opinion on the consolidated financial statements.

Auditors' Report

To the Shareholders of
TrizecHahn Corporation

We have audited the consolidated balance sheets of TrizecHahn Corporation as at December 31, 1998 and 1997 and the consolidated statements of income, retained earnings, cash flows and cash flow from real estate operations for each of the years in the three year period ended December 31, 1998. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards required that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1998 and 1997 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 1998 in accordance with accounting principles generally accepted in Canada.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Canada
February 3, 1999

Shareholder Information

Investor Relations

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Contact

Tabb O. Davis
Vice President, Investor Relations and
Corporate Communications

Stock Exchange Listings

New York
Toronto
Montreal

Trading Symbol

TZH

Index Listings

TSE 300
TSE 100
TSE Real Estate Index
Wilshire Real Estate Securities Index

Shares (millions)

Outstanding at December 31, 1998	
Subordinate Voting	145.2
Multiple Voting	7.5
Total	152.7
Weighted average	
Basic	153.0
Fully diluted	173.7

Closing Price of Shares

At Dec. 31, 1998	
New York Stock Exchange	U.S.$20.50
The Toronto Stock Exchange	C$31.50

	New York Stock Exchange			The Toronto Stock Exchange		
1998	Share Volume (millions)	High	Low	Share Volume (millions)	High	Low
First	10.4	U.S.$25.13	U.S.$21.75	18.2	C$36.00	C$31.20
Second	8.9	24.69	20.50	14.5	34.85	29.90
Third	14.0	21.50	16.63	18.6	34.95	25.65
Fourth	7.1	21.63	16.13	15.9	32.95	25.25
For the year	40.4	25.13	16.13	67.2	36.00	25.25
1997						
First	14.0	U.S.$24.88	U.S.$21.38	15.5	C$33.50	C$29.10
Second	13.4	22.88	20.00	17.7	32.10	27.85
Third	14.8	25.81	20.75	16.9	37.80	28.75
Fourth	7.9	27.56	22.25	11.2	35.90	32.20
For the year	50.1	27.56	20.00	61.3	37.80	27.85
1996						
First	20.9	U.S.$14.88	U.S.$13.50	4.7	C$20.70	C$18.10
Second	13.3	15.25	13.75	3.7	20.75	18.85
Third	20.2	16.38	12.13	15.4	22.30	17.00
Fourth	14.6	22.00	17.88	20.8	30.15	21.50
For the year	79.3	22.00	13.75	45.7	30.15	21.50

Class A Warrants

Holders of the Corporation's Class A Warrants are entitled to acquire, upon compliance with the conditions set forth in the Warrant Indenture, 0.58 of a Subordinate Voting Share for each Warrant, at the exercise price of C$14.14. The Warrants are exercisable until July 26, 1999.

The Warrants are listed on the New York (TZH.WS), Toronto (TZH.WT.A) and Montreal stock exchanges.

1998	Volume	High	Low	Close
New York Stock Exchange	800,900	U.S.$5.13	0.88	2.81
The Toronto Stock Exchange	10,998,946	C$7.50	1.80	4.50

Warrants outstanding, at December 31, 1998 (millions): 14.0

Note: These Warrants were originally issued by Trizec Corporation Ltd. and were converted on a one-for-one basis into TrizecHahn Corporation Class A Warrants as a result of the merger.

Form 40-F

The annual report on Form 40-F is filed with the United States Securities and Exchange Commission. This report will be made available to shareholders, without charge, upon written request to the Corporate Secretary of TrizecHahn.

Transfer Agent and Registrar

Investors are encouraged to contact our Transfer Agent and Registrar, CIBC Mellon Trust Company, for information regarding their security holdings at

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Postal Station
Toronto, Ontario M5C 2W9
Answerline™: (416) 643-5500
Toll free throughout North America: (800) 387-0825
E-mail: inquiries@cibcmellon.ca

Annual Meeting

The Annual Meeting of Shareholders will be held on Monday, May 17, 1999 at 11:00 a.m. in the Canadian Room, Royal York Hotel, 100 Front Street West, Toronto, Ontario.

Directors and Officers

Directors

Howard L. Beck, Q.C. (a) (b)
Toronto, Ontario
Chairman
Wescam Inc.

C. William D. Birchall (c)
London, England
Vice Chairman
TrizecHahn Corporation

Willard J. L'Heureux
London, England
Managing Director, International
TrizecHahn Corporation

The Right Honourable Brian Mulroney (b)
Montreal, Quebec
Senior Partner
Ogilvy Renault

Peter Munk (c)
Toronto, Ontario
Chairman and
Chief Executive Officer
TrizecHahn Corporation

Jeremiah W. O'Connor, Jr. (c)
Bronxville, New York
Chairman and
Chief Executive Officer
The O'Connor Group

Karl Otto Pöhl
Frankfurt, Germany
Partner
Sal. Oppenheim jr. & Cie.

Thomas S. Quinn, III (a) (c)
New York, New York
Managing Director
J.P. Morgan Capital Corporation

Joseph L. Rotman (a)
Toronto, Ontario
Chairman and
Chief Executive Officer
Clairvest Group Inc.

Glenn J. Rufrano (b) (c)
Bellmore, New York
President and
Chief Operating Officer
The O'Connor Group

Gregory C. Wilkins (c)
Toronto, Ontario
President and
Chief Operating Officer
TrizecHahn Corporation

(a) Member of the Audit Committee
(b) Member of the Compensation, Nominating and Corporate Governance Committee
(c) Member of the Executive Committee

Officers – Corporate

Peter Munk
Chairman and
Chief Executive Officer

Gregory C. Wilkins
President and
Chief Operating Officer

Gregory W. Sullivan
Executive Vice President and
Chief Financial Officer

Richard J. Steets
Executive Vice President,
Corporate Development

J. Douglas Bradley
Managing Director,
Corporate Development

Robin A. Campbell
Senior Vice President,
General Counsel

Colin J. Chapin
Senior Vice President,
Taxation

Luigi L. Favit
Senior Vice President and
Controller

Norman W. V. Purves
Senior Vice President,
Development

Robert B. Wickham
Senior Vice President
and Treasurer

Peter M. Ballon
Vice President,
Corporate Development

Theodore W. Chivers
Vice President,
Human Resources

Tabb O. Davis
Vice President,
Investor Relations and
Corporate Communications

Sari L. Diamond
Vice President and
Corporate Secretary

Joanne E. Ranger
Vice President and
Assistant Controller

Officers – North American Operations

Casey R. Wold
President,
TrizecHahn Office Properties

Lee H. Wagman
President,
TrizecHahn Development
Corporation

David W. Clapp
Executive Vice President and
Chief Operating Officer,
TrizecHahn Office Properties

Andrew A.L. Blair
Executive Vice President and
Chief Operating Officer,
TrizecHahn Development
Corporation

Brian K. Lipson
Executive Vice President,
TrizecHahn Office Properties

Corporate Information

Officers – European Operations

C. William D. Birchall
Deputy Chairman

Peter C. C. Sidebottom
Managing Director

Philip Rose
Deputy Managing Director

Willard J. L'Heureux
Executive Director

Derek J. Watchorn
Executive Director

W. Joe Larsen
Executive Vice President,
Development and Operations

Upkar S. Arora
Executive Vice President and
Chief Financial Officer

Mervyn Howard
Executive Vice President,
Acquisitions

Martin R. Carr
Senior Vice President,
Business Development

Philip R. Jones
Senior Vice President,
Business Development

Pascal Motte
Senior Vice President,
Business Development

TrizecHahn Corporation

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North American Development

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Forward-Looking Statements

This Annual Report to Shareholders of the Corporation, including the Management's Discussion and Analysis set forth herein, contains forward-looking statements relating to the Corporation's operations which are based on the Corporation's current expectations, estimates, forecasts and projections. Words and phrases such as "expects", "should", "anticipates", "estimates", "believes", "intends", "plans" and "will benefit", variations of such words and similar expressions are used to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties, estimates and assumptions which are difficult to predict. Therefore, actual outcomes and results may differ materially from those expressed in these forward-looking statements. Readers, therefore, should not place undue reliance on any such forward-looking statements. Further, any forward-looking statement speaks only as of the date on which such statement is made, and the Corporation undertakes no obligation to publicly update any such statement to reflect new information, the occurrence of future events or circumstances or otherwise. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements. Such factors include those set forth in the Risk Factors section in the Corporation's Annual Report on Form 40-F to be filed with the U.S. Securities and Exchange Commission.

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